



CHAPTER 7

Managing the Cost of Labor

OVERVIEW

This chapter explains the techniques that managers use to control labor costs by establishing and monitoring labor cost standards. Factors that affect labor productivity as well as methods for improving labor productivity are presented. This chapter teaches you how to schedule employees based on established labor productivity standards, as well as how to compute a labor cost percentage and other measures of labor productivity used in the foodservice industry.

Chapter Outline

- Labor Expense in the Hospitality Industry
- Evaluating Labor Productivity
- Maintaining a Productive Workforce
- Measuring Current Labor Productivity
- Managing Payroll Costs
- Reducing Labor-Related Costs
- Technology Tools
- Apply What You Have Learned
- Key Terms and Concepts
- Test Your Skills

LEARNING OUTCOMES

At the conclusion of this chapter, you will be able to:

- Identify the factors that affect employee productivity.
- Develop labor standards and employee schedules used in a foodservice operation.
- Analyze and evaluate actual labor utilization.

LABOR EXPENSE IN THE HOSPITALITY INDUSTRY •

You have learned that having the correct amount of food and beverage products available to serve your guests is important. Knowing how those products should be prepared and served is also vital. To see why, consider the case of Pauline. She manages the open-to-the-public cafeteria located in a large urban hospital. Both hospital staff and patients' visitors, who constitute the majority of her cafeteria guests, have good things to say about the quality of her food. They complain often, however, about the slowness of her cafeteria line, the soiled tables during the busy lunch hour, and the frequent running out of items at the salad bars. Pauline often feels that she needs more employees. She knows, however, that her current staff is actually larger than it was a few years ago. She also knows that she now serves more guests each day than she has in the past. Her question is, "Do I have the right number of employees scheduled to work, and at the right times, for the number of guests I am serving today?" Unfortunately for her, Pauline is so busy "helping" her employees get through the meal periods that there seems to be little time for thinking about and planning the strategies and techniques she needs to apply if she is to solve her labor-related customer service problems.

In years past, when labor was relatively inexpensive, Pauline might have responded to her need for more workers by simply hiring more employees. Today's foodservice manager, however, does not have that luxury. In today's increasingly costly labor market, you must learn the supervisory skills needed to maximize the effectiveness of your staff and the cost control skills required to evaluate their efforts. That is because labor is a significant foodservice operating cost. In fact, in some foodservice establishments, the cost of labor actually exceeds the cost of food and beverage products.

Today's competitive labor market indicates that, in the future, foodservice managers will likely find it even more difficult to recruit, train, and retain an effective team of employees. Therefore, the control of labor expenses takes on a greater level of importance than ever before. In some sectors of the foodservice industry, a reputation for long hours, poor pay, and undesirable working conditions has caused some high-quality employees to look elsewhere for more satisfactory jobs or careers. It does not have to be that way, and it is up to you to help ensure that in your organization it is not.

When labor costs are adequately controlled, management has the funds necessary to create desirable working conditions and pay a wage that will attract the very best employees. In every service industry, better employees mean better guest service and, ultimately, better business profits.

LABOR EXPENSE DEFINED

Payroll is the term generally used to refer to the salaries and wages you will pay your employees. **Labor expense** includes salaries and wages, but it also includes other labor-related costs. These include:

1. FICA (Social Security) taxes, including taxes due on employees' tip income
2. FUTA (Federal unemployment taxes) state unemployment taxes
3. Workers' compensation
4. Group life insurance
5. Health insurance, including:
 - Medical
 - Dental
 - Vision
 - Disability

6. Pension/retirement plan payments
7. Employee meals
8. Employee training expenses
9. Employee transportation costs
10. Employee uniforms, housing, and other benefits
11. Vacation/sick leave/personal days
12. Tuition reimbursement programs
13. Employee incentives and bonuses

Not every operation will incur all of the costs listed. But some operations will have all of these and more. You can be sure, however, that regardless of the facility you manage, you will incur some labor-related expenses in addition to wages and salaries. The critical question you must answer is, “How much should I spend on payroll and other labor expenses to deliver the quality of products and service that I feel is appropriate?” Before you can hope to answer that question, it is important that you understand well the individual components that make up payroll and labor expense.

FUN ON THE WEB!

In the United States, the Patient Protection and Affordable Care Act (ACA) was signed into law in 2010. This health insurance-related law directly affects the benefit costs incurred by many food service organizations. To learn more about the ACA, and its requirements go to: <http://www.healthcare.gov/law/index.html>.

PAYROLL

Payroll refers to the gross pay received by an employee in exchange for his or her work. That is, if an employee earns \$10.00 per hour and works 40 hours for his or her employer, the gross paycheck (the employee’s paycheck before any mandatory or voluntary deductions) would be \$400 ($\$10.00 \text{ per hour} \times 40 \text{ hours} = \$400$). This gross amount is considered a payroll expense.

If the employee earns a salary, that salary amount is also a payroll expense. A **salaried employee** generally receives the same income per week or month regardless of the number of hours worked. Thus, if a salaried employee is paid \$700 per week when he or she works a complete week, that \$700 is included in payroll expense. Salaried employees are actually more accurately described as **exempt employees** because their duties, responsibilities, and level of decisions make them “exempt” from the overtime provisions of the federal government’s Fair Labor Standards Act (FLSA). Exempt employees do not receive overtime for hours worked in excess of 40 per week and are expected by most organizations to work the number of hours needed to do their jobs.

FUN ON THE WEB!

The designation of which workers can (and cannot) be considered exempt employees is governed by the US Department of Labor and the Fair Labor Standards Act (FLSA).

Minimum allowable salary levels are also determined by the Wage and Hour Division (WHD) of this department. To learn more about wages that must be paid to exempt and to nonexempt employees, go to: www.dol.gov/whd/.

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FIXED PAYROLL VERSUS VARIABLE PAYROLL

When you manage a foodservice facility, you must make choices regarding the number and type of employee you will hire to help you serve your guests. Some employees are needed simply to open the doors for the minimally anticipated business. **Minimum staff** is the term used to describe the least number of employees, and the least number of payroll dollars, needed to operate a business. For example, in a small operation, this may include only one manager, one server, and one cook. The cost of providing payroll to these three individuals would be its minimum staff payroll.

Suppose, however, that the operation anticipated much greater volume on a given day. The increased number of guests expected means that the operation may need more cooks and more servers, as well as cashiers, dishroom personnel, and, perhaps, more supervisors to handle the additional workload. Clearly, these additional staff positions create a work group that is far larger than the minimum staff, but it is needed to adequately service the anticipated number of guests.

Payroll costs may be fixed or variable. **Fixed payroll** refers to the amount an operation pays in salaries. This amount, in most cases, is fixed because it remains unchanged from one pay period to the next unless the individual receiving the pay separates employment from the organization or is given a raise.

Variable payroll consists primarily of those dollars paid to hourly employees. Thus, variable payroll is the amount that should “vary” with changes in sales volume. Generally, as you anticipate increased volume levels in your facility, you may need to add additional hourly and, sometimes, additional salaried employees. The distinction between fixed and variable labor is an important one. As a manager, you may have little direct control over your fixed labor expense, whereas you will have nearly 100 percent control over variable labor expenses that are above your minimum staff levels.

LABOR EXPENSE

Unlike payroll expense, labor expense refers to the total of all costs associated with maintaining your workforce. Labor expense includes employee taxes and benefits costs and is always larger than payroll expense.

The actual amount of taxes and employee benefits paid for by a specific operation can vary greatly. Some expenses, such as payroll taxes and contributions to workers’ unemployment and workers’ compensation programs, are mandatory for all employers. Other benefit payments, such as those made for employee insurance and retirement programs, are voluntary and vary based on the benefits a business chooses to offer its employees. As employment taxes and benefit costs increase an operation’s labor expense will increase even if payroll expense remains constant.

Most foodservice operators have total control over their payroll expense. It is, therefore, often referred to as a *controllable* labor expense. Other labor expenses, such as taxes and some benefits, over which an operator has little or no control, are commonly called *noncontrollable* labor expenses. In reality, however, you can exert some control over these noncontrollable labor expenses, such as a foodservice manager who works very hard to ensure a well-trained workforce in a safe environment and thereby achieves a lower rate on workers’ compensation, accident, and health insurance for his or her employees.

In this chapter, we deal primarily with payroll-related expenses. This is in keeping with the concept that these are the most controllable of labor-related expenses. To determine how much payroll is needed to operate your business, you must be able to determine how much work must be done and how much work each employee can perform. If too few employees are scheduled to work, poor service and reduced sales can result, because guests may choose to go elsewhere in search of superior food and service levels. If too many employees are scheduled, payroll and other labor-related expenses will be too high, resulting in reduced profits. The best solution

to this challenge is to know how many employees are needed given the estimated number of guests you will serve. To determine this number of employees, you must have a clear idea of the **productivity** of each of your employees. Productivity is the amount of work performed by an employee in a fixed period of time.

EVALUATING LABOR PRODUCTIVITY

There are many ways to assess labor productivity. In general, productivity is measured by the **productivity ratio** as follows:

$$\frac{\text{Output}}{\text{Input}} = \text{Productivity ratio}$$

To illustrate this formula, assume a restaurant employs 4 servers and it serves 60 guests. Using the productivity ratio formula, the output is guests served; the input is servers employed, as follows:

$$\frac{60 \text{ guests}}{4 \text{ servers}} = 15 \text{ guests per server}$$

This formula demonstrates that, for each server employed, 15 guests can be served. The productivity ratio is 15 guests to 1 server (15 to 1) or, stated another way, 1 server per 15 guests (1/15).

There are several ways of defining foodservice output and input; thus, there are several types of productivity ratios. Some of these are presented later in this chapter.

All of these productivity ratios can be helpful in determining the answer to the key question, “How much should I spend on labor?” The answer, however, is even more complicated than it might seem at first. In the preceding example, you know that, on average, 1 of your servers can serve 15 guests. But how many guests will a slow server serve? How about your best server? How much do you pay the most productive server? Your least productive? Are you better off scheduling your best server if you anticipate 20 guests, or should you schedule two of your slower servers? How can you help the slower server become an average or above-average server? At what cost? These are the types of questions that must be answered daily if you are to effectively manage your total payroll costs.

Foodservice operators must develop their own methods for managing payroll because every foodservice unit is different. Consider the differences between managing payroll costs at a small, quick-service food kiosk in a shopping mall and a large banquet kitchen in a 1,000-room convention hotel. Although the methods used to manage payroll costs may vary somewhat, it is always true that payroll costs can and should be managed.

MAINTAINING A PRODUCTIVE WORKFORCE

Before we address how managers calculate and utilize productivity ratios, it is important to understand the factors that make employees more productive because these factors directly affect employee productivity.

The following are 10 key employee-related factors that directly affect levels of employee productivity:

Ten Key Factors Affecting Employee Productivity

1. Employee selection
2. Training

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3. Supervision
4. Scheduling
5. Breaks
6. Morale
7. Menu
8. Convenience food use versus scratch preparation
9. Equipment/tools
10. Service level desired

EMPLOYEE SELECTION

Choosing the right employee from the beginning is vitally important in developing a highly productive workforce. Good foodservice managers know that proper selection procedures go a long way toward establishing the kind of workforce that can be both efficient and effective. This involves matching the right employee with the right job. The process begins with the development of the job description.

JOB DESCRIPTION

A **job description** is a listing of the tasks that must be accomplished by the employee hired to fill a particular position. For example, in the case of a room service delivery person in a large hotel, the tasks might be listed as indicated on the job description shown in Figure 7.1.

A job description should be maintained for every position in every foodservice operation. From the job description, a job specification can be prepared.

FIGURE 7.1 Job Description

Job Description	
Unit Name: <u>Thunder Lodge Resort</u>	Position Title: <u>Room Service Delivery Person</u>
PRIME TASKS:	
1. <u>Answer telephone to receive guest orders</u>	7. <u>Balance room service cash drawer</u>
2. <u>Set up room service trays in steward area</u>	8. <u>Clean room service setup area at conclusion of shift</u>
3. <u>Deliver trays to room, as requested</u>	9. <u>Other duties, as assigned by supervisor</u>
4. <u>Remove tray covers upon delivery</u>	10. _____
5. <u>Remove soiled trays from floors</u>	11. _____
6. <u>Maintain guest check control</u>	12. _____
Special Comments: <u>Hourly rate excludes tips. Uniform allowance is \$45.00 per week</u>	
Salary Range: <u>\$10.00–\$12.25/hour</u>	
Signature: <u>Matt V.</u>	

FIGURE 7.2 Job Specification

Job Specification	
Unit Name: <u>Thunder Lodge Resort</u>	Position Title: <u>Room Service Delivery Person</u>
Personal Characteristics Required:	
1. Good telephone skills; speaks clearly, speaks easily understood English	
2. Ability to operate point of sale (POS) systems	
3. Detail oriented	
4. Pleasant personality	
5. Discreet	
Special Comments: <u>Good grooming habits are especially important in this position, as</u>	
<u>employee will be a primary guest contact person.</u>	
Job Specification Prepared By: <u>Matt V.</u>	

JOB SPECIFICATION

A **job specification** is a listing of the personal characteristics needed to perform the tasks contained in a job description. Figure 7.2 shows the job specification that would match the job description shown in Figure 7.1.

As can be seen, this position requires a specific set of personal characteristics and skills. When a room service delivery person is hired, the job specification requirements (specs) must be foremost in management's mind. If the job specs do not exist or are not followed, it is likely that employees may be hired who are simply not able to be highly productive. Each employee hired must be able to do, or be trained to do, the tasks indicated in the employee's job description.

It will be your role to develop and maintain both job descriptions and job specifications so that employees know what their jobs are and so that you know the characteristics your employees must have, or be trained in, to do their jobs well. Managers selecting new employees have several important tools available to them. These include:

1. Applications
2. Interviews
3. Preemployment testing
4. Background/reference checks

APPLICATIONS

The **employment application** is a document completed by the candidate for employment. It will generally list the name, address, work experience, and related information of the candidate. It is important that each employment candidate for each position be required to fill out in person, or online, an identical application, and that his or her application be kept on file for each candidate who is ultimately selected for a position.

INTERVIEWS

From the employment applications submitted, you will select some candidates for the personal interview process. It is important to realize that the types of questions that can be asked in the interview process are highly regulated. As a result, job interviews, if improperly performed, can subject an employer to significant legal liability. For example, if a candidate is not hired based on his or her answer to—or refusal to answer—an inappropriate question, that candidate may have the right to file a lawsuit.

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What questions can and cannot be asked of potential employees? The Equal Employment Opportunity Commission suggests that all employers consider the following three issues when deciding whether to include a particular question on an employment application or in a job interview:

1. Does this question tend to screen out minorities or females?
2. Is the answer needed to judge this individual's competence for performance of the job?
3. Are there alternative, nondiscriminatory ways to judge the person's qualifications?

In all cases, questions asked both on the application and in the interview should focus on the applicant's ability to do a job, and nothing else.

PREEMPLOYMENT TESTING

Preemployment testing is a common way to help improve employee productivity. In the hospitality industry, preemployment testing will generally fall into one of the following categories:

1. Skills tests
2. Psychological tests
3. Drug screening tests

Skills tests allow an applicant to show that he or she can complete a task. Example activities could include drink production for bartenders, computer application tests for those involved in using word processing or spreadsheet tools, or food production tasks for cooks and chefs.

Psychological testing can include personality tests, tests designed to predict mental performance, or tests of mental ability.

Preemployment drug testing is used by some organizations to determine if an applicant uses illegal drugs. Such testing is allowable in most states, and it can be a very effective tool for reducing insurance rates and potential employee liability issues.

BACKGROUND/REFERENCE CHECKS

Increasingly, hospitality employers are utilizing background checks prior to hiring employees in selected positions. Common verification points include the following:

- Name
- Social Security number
- Address history
- Dates of past employment and duties performed
- Education/training
- Criminal background
- Credit history

Background checks, like preemployment testing, can leave an employer subject to litigation if the information secured during a check is false or is used in a way that violates federal or state employment laws. In addition, if the information is improperly disclosed to third parties, it could violate the employee's right to privacy. Not conducting background checks on some positions can, however, subject the employer to potential litigation under the doctrine of **negligent hiring**, that is, a failure on the part of an employer to exercise reasonable care in the selection of employees. When background checks are performed, a candidate for employment should be asked to sign a consent form authorizing you to conduct the background check.

FUN ON THE WEB!

For government information regarding labor issues and laws in the United States, explore the US Department of Labor website at www.dol.gov. Click on “Site Map” then review the “Find It by Topic” list. You will find important information on hiring, minimum wage and overtime pay, family and medical leave, employment discrimination, and much more.

Green and Growing!

Consumers are increasingly aware that when they support businesses committed to sustainability, their dollars make an impact socially and environmentally. As a result, influential and leading-edge thinkers concerned about society and the environment seek out companies that share their health, social, and environmental interests and priorities. So committed are they that they are, on average, willing to spend 20 percent more than the typical guest for products that conform to their values and lifestyle.

In a similar manner, environmentally conscious workers are increasingly aware that a company's care for the environment most often is also reflected in its care for its employees. As a result, companies espousing genuine commitment to the environment attract a more committed and, as a result, higher-quality staff. These

workers tend to value health, the environment, social justice, personal development, and sustainable living. They want to contribute their efforts to companies that share those values, and their numbers are growing.

Do you have to be “certified” as green to attract these environmentally conscious employees? That is, do you have to be a “perfect” green facility? No. But you cannot just pretend that you are, either. Workers easily see beyond false claims of care, in part because they share information so freely and easily via Web pages, Twitter “tweets,” blogs, and chat rooms. The more environmentally friendly, socially responsible, and healthy you are known to truly be, the easier it will be for prospective employees who share these goals to find you—because they *are* looking.

TRAINING

Perhaps no area under your control holds greater promise for increased employee productivity than effective training. In too many cases, however, training in the hospitality industry is poor or almost nonexistent. Highly productive employees are usually well-trained employees, and, frequently, employees with low productivity have been poorly trained. Every position in a foodservice operation should have a specific, well-developed, and ongoing training program.

Effective training will improve job satisfaction and instill in employees a sense of well-being and accomplishment. It will also reduce confusion, product waste, and loss of guests. In addition, supervisors find that a well-trained workforce is easier to manage than one in which employees are poorly trained. An additional advantage of a well-trained workforce is that management will be more effective because of reduced stress, in terms of both work completion and interpersonal relationships.

Effective training begins with a good **orientation program**. An orientation program prepares a new worker for success on his or her job. The following list includes some of the concerns that most employees have when they start a new job. You should identify which items are relevant to your new employees and take care to provide them information in each area, in either written or verbal form.

Potential Orientation Program Information

1. Payday
2. Annual performance review
3. Probationary period

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4. Dress code
5. Telephone call, cell phone use policy
6. Smoking policy
7. Uniform allowance
8. Disciplinary system
9. Educational assistance
10. Work schedule
11. Mandatory meetings
12. Tip policy
13. Transfers
14. Employee meal policy
15. Sexual harassment policy
16. Lockers/security
17. Jury duty
18. Leave of absence
19. Maternity leave
20. Alcohol/drug policy
21. Employee assistance programs
22. Tardy policy
23. Sick leave policy
24. Vacation policy
25. Holidays and holiday pay
26. Overtime pay
27. Insurance
28. Retirement programs
29. Safety/emergency procedures
30. Grievance procedures

Orientation and training programs need not be elaborate. They must, however, be consistent and continual. Hospitality companies can train in many different areas. Some training seeks to influence attitudes and actions, for example, when training to prevent work-related harassment is presented. In other cases, training may be undertaken to assist employees with stress or other psychologically related job aspects.

In most cases, the training you will be responsible for as a unit manager is **task training**—the training undertaken to ensure an employee has the skills to meet productivity goals. The development of a training program for any task requires managers to:

1. Determine how the task is to be done.
2. Plan the training session.
3. Present the training session.
4. Evaluate the session's effectiveness.
5. Retrain at the proper interval.

DETERMINE HOW THE TASK IS TO BE DONE

Often, jobs can be done in more than one way. When management has determined how a task should be completed, however, that method should be made part of the training program and should be strictly maintained unless a better method can be demonstrated and successfully implemented. If this is not done, employees will

find that “anything goes,” and product consistency, along with service levels, will vary tremendously.

PLAN THE TRAINING SESSION

Properly planning for a training session involves answering key questions:

1. Who should be trained?
2. Who should do the training?
3. Where should the training occur?
4. When should the session occur?
5. What tools, materials, or supplies are needed to conduct the session?
6. What should the length of the session be?
7. How frequently should the sessions occur?
8. How and where will the attendance and completion records regarding each training session offered be kept?

Good training sessions are the result of a need felt by management to train personnel matched with a management philosophy that training is important. Taking time to effectively plan training sessions is a good way for you to let employees know that you take the training process seriously.

Whether the training session is self-paced, an interactive program delivered via the Internet, a DVD, a hands-on demonstration, a group discussion, or a lecture-style presentation, time spent planning your training sessions is time well spent.

PRESENT THE TRAINING SESSION

Many managers feel that they have no time for training. But good management is about teaching, encouraging, and coaching others. As a result, you must find the time to train. Managers interested in the long-term success of their operations and employees will often set aside time each week to conduct training. Some managers maintain that all of the training in their unit must be **OJT** (on-the-job training). They feel that structured training either takes too long or is inappropriate. In nearly all cases, this is not correct and is a major cause of the rather low rate of productivity so prevalent in some parts of the hospitality industry.

The best training sessions are presented with enthusiasm and an attitude of encouragement. Make sure that training is presented not because employees “don’t know” but because management wants them to “know more.” Involve employees in the presentation of training exercises. Seek their input in the sessions. Ask questions that encourage discussion, and always conclude the sessions on a positive note.

A brief, but effective, plan for each session could be to:

1. Tell the employees what you hope to teach them, and why.
2. Present the session.
3. Reemphasize the main points and discuss why they are important.
4. Ask for questions to ensure understanding.

EVALUATE THE SESSION’S EFFECTIVENESS

There is a saying in education, “If the student hasn’t learned, then the teacher hasn’t taught.” This concept, when applied to hospitality training, implies that simply presenting a training session is not enough. Training should result in change. Either employees improve and gain new skills, knowledge, or information, or they have not learned. If you know this to be the case, you must evaluate the training session. This process can be as simple as observing an employee’s behavior (to test skill acquisition), or as detailed as preparing written questions for employees to answer (to test knowledge application and retention).

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Post-training evaluation should also be directed at how the sessions were conducted. Were they too long? Were they planned well? The evaluation of training is as important as its delivery. Both the content of the session and the delivery itself should be evaluated because employees who are well trained are more productive, are more highly motivated, and provide better service to guests.

RETRAIN AT THE PROPER INTERVAL

Humans learn, unlearn, and relearn on a regular basis. The telephone number you might have known so well 10 years ago might now be gone from your memory. Similarly, the friend or teacher's name you knew well at one time and felt you would never forget may be forgotten. In the same way, employees who are well trained in an operation's policies and procedures need to be constantly reminded and updated if their skill and knowledge levels are to remain high.

Performance levels can decline because of a change in the operational systems you have in place or changes in equipment used. When this is true, you must retrain your employees. Training a workforce is one, if not the best, method of improving employee productivity. Effective training costs a small amount of time in the short run, but pays off extremely well in dollars in the long run. Managers who have risen to the top in the hospitality industry have some specific characteristics and traits. Chief among these is their desire to teach and encourage their employees and, thus, get the best results from each and every one of them.

SUPERVISION

All employees require proper supervision. This is not to say that all employees want to be told what to do. Proper supervision means assisting employees in improving productivity. In this sense, the supervisor is a helper and facilitator who provides employee assistance. Supervising should be a matter of assisting employees to do their best, not just identifying their shortcomings. It is said that employees think one of two things when they see their boss approaching:

1. Here comes help!
- or
2. Here comes trouble!

For those supervisors whose employees feel that the boss is an asset to their daily routine, productivity gains are remarkable. Supervisors who see their position as one of power, or who see themselves as taskmasters, can only rarely maintain the quality workforce necessary to compete in today's competitive market.

It is important to remember that it is the employee, not management, who services the guest. When supervision is geared toward helping employees an operation's guests benefit, and, as a result, the operation benefits. This is why, in most foodservice operations, it is so important for managers to be **on-the-floor**, in other words, in the dining or service area, during meal periods. Greeting guests, solving bottleneck problems, maintaining food quality, and ensuring excellent service are all tasks of the foodservice manager during the service period. When employees see that management is committed to providing high-quality customer service, and is there to assist employees in delivering that level of service, worker productivity will improve.

SCHEDULING

Even with highly productive employees, poor employee scheduling by management can result in low productivity ratios. Consider the example in Figure 7.3, where management has determined a schedule for pot washers in a unit that is open for three meals per day.

FIGURE 7.3 Two Alternative Schedules

Schedule A																
	7:30 to 8:30	8:30 to 9:30	9:30 to 10:30	10:30 to 11:30	11:30 to 12:30	12:30 to 1:30	1:30 to 2:30	2:30 to 3:30	3:30 to 4:30	4:30 to 5:30	5:30 to 6:30	6:30 to 7:30	7:30 to 8:30	8:30 to 9:30	9:30 to 10:30	10:30 to 11:30
Employee 1																
Employee 2																
Employee 3																
Employee 4																
Total Hours = 32																

Schedule B																
	7:30 to 8:30	8:30 to 9:30	9:30 to 10:30	10:30 to 11:30	11:30 to 12:30	12:30 to 1:30	1:30 to 2:30	2:30 to 3:30	3:30 to 4:30	4:30 to 5:30	5:30 to 6:30	6:30 to 7:30	7:30 to 8:30	8:30 to 9:30	9:30 to 10:30	10:30 to 11:30
Employee 1																
Employee 2																
Employee 3																
Total Hours = 24																

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In Schedule A, four employees are scheduled for 32 hours at a rate of \$9.00 per hour. Pot washer payroll, in this case, is \$288 per day (32 hours/day $\times$ \$9.00/hour = \$288 per day). Each shift, breakfast, lunch, and dinner, has two employees scheduled.

In Schedule B, three employees are scheduled for 24 hours. At the same rate of \$9.00 per hour, payroll is \$216 per day (24 hours/day $\times$ \$9.00/hour = \$216 per day). Wages, in this case, are reduced by \$72 (\$288 – \$216 = \$72), and further savings will be realized due to reduced employment taxes, benefits, employee meal costs, and other labor-related expenses. Schedule A assumes that the amount of work to be done is identical at all times of the day. Schedule B covers both the lunch and the dinner shifts with two employees but assumes that one pot washer is sufficient in the early-morning period as well as very late in the day.

When scheduling is done to meet projected demand, productivity ratios will increase. If production standards are to be established and monitored, management must do its job in ensuring that employees are scheduled only when needed to meet the sales or volume anticipated. Returning to our formula for computing the productivity ratio, Figure 7.4 assumes that 600 pots are to be washed, and as a result, shows the effect on the productivity ratio of different scheduling decisions.

Proper scheduling ensures that the correct number of employees is available to do the necessary amount of work. If too many employees are scheduled, productivity ratios will decline. If too few employees are scheduled, customer service levels may suffer or necessary tasks may not be completed on time or as well as they should be.

Work in a foodservice operation tends to occur in peaks and valleys, and the foodservice manager is often faced with uneven demands regarding the number of employees needed. Different days of the week may also require different levels of staffing. In a restaurant located in a hotel that caters to business travelers, for example, the slow period might be a weekend when most business travelers are at home rather than staying in the hotel.

In an upscale restaurant, on the other hand, the slow period may be during the week, with volume picking up on the weekends. For the weekend increase in business, the manager might hire part-time employees to handle the higher volume. To further complicate matters, some operations are faced with seasonal variations. In a college dining facility, the summers may be slow, or the operation may even be closed, whereas a beach resort may be extremely busy during that same time period.

Demand can also vary from hour to hour because people in the United States tend to eat in three major time periods. In restaurants doing strong lunch business, 5 cooks and 15 servers may be necessary. At 3:00 in the afternoon at the same restaurant, one cook and one server may find themselves with few guests to serve.

Scheduling efficiency during the day can often be improved through the use of the **split-shift**, a technique used to match individual employee work shifts with peaks and valleys of customer demand. In using a split-shift, the manager would, for example, require an employee to work a busy lunch period, be off in the afternoon, and then return to work for the busy dinner period.

Employee scheduling in the hospitality industry can be challenging. It is important, however, that it be done well. Productivity standards help the foodservice operator match workload to the number of needed employees.

FIGURE 7.4 Effect of Scheduling on Productivity Ratios

Number of Pots to Be Washed	Number of Pot Washers Scheduled	Productivity Ratio
600	4	150 pots/washer
600	3	200 pots/washer

BREAKS

Most employees simply cannot work at top speed for eight hours straight. They have both a physical and mental need for breaks from their work. These breaks give them a chance to pause, collect their thoughts, converse with their fellow employees, and, in general, prepare for the next work session. Employees who are given frequent, short breaks will outproduce those who are not given any breaks. It simply makes no sense, then, for management to behave as if they begrudge their staff the breaks that are so beneficial to the organization, as well as to the employee.

Federal law does not mandate that all employees be given breaks but some states do. As a result, foodservice supervisors often must determine both the best frequency and the best length of designated breaks. In some cases, however, and especially regarding the employment of students and minors, both federal and state law may mandate special workplace requirements for employees. As a professional manager, you will need to be familiar with these laws if they apply to your operation.

FUN ON THE WEB!

Visit the website of the department or agency responsible for enforcing youth employment laws in your state. To do so, enter “child labor laws” and the name of your state in your favorite search engine, then view the results to learn about any special laws or regulations that apply to minors working in that state.

MORALE

Employee morale is not often mentioned in discussions about controlling foodservice labor costs. Yet, as experienced managers will attest, it is impossible to overestimate the financial value of a highly motivated employee or crew. Although it is a truism that employees motivate themselves, it is also true that effective managers can create an environment that makes it easy for employees to want to be motivated.

History is filled with examples of teams and groups who have achieved goals that seemed impossible, but were accomplished because they were highly motivated. Serving people should be fun. It should be exciting. If this sense of fun and excitement can be instilled in foodservice employees their work also becomes fun and exciting.

Work groups with high morale share common traits. In general, these groups work in an environment where:

1. A vision has been created.
2. The vision is constantly communicated to employees.
3. The vision is shared and embraced by both management and employees.

Creating a vision is nothing more than finding a “purpose” for the workforce. Any manager who communicates that the purpose for a pot washer is simply to clean pots cannot expect to have a fired-up, turned-on employee. Yet, pot washers can have high morale. They can be a critical part of management’s overall purpose for the work crew. Consider, for purposes of illustration, some of the following techniques you could use to communicate a customer service vision to your pot washers, a group of workers not normally viewed as one having direct customer contact:

1. If your unit has been, as it should be, free from cases of foodborne illness, part of the credit goes to your pot-washing staff. Recognize them for this achievement on a quarterly basis.

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2. Conduct regular “pot-washing station inspections.” Score the area for cleanliness on a scale of 1 to 100. Present each pot washer with a certificate when the area score exceeds 90. If it does not exceed 90, increase training until it does!
3. Recognize your “best” pot washer(s) at an annual employee recognition luncheon or dinner for:
 - a. Best attendance
 - b. Best productivity
 - c. Cleanest work area
 - d. Most improved
 - e. Most thorough
 - f. Most often in proper uniform
 - g. Safest worker
4. Include a pot washer on your safety committee. Publicly recognize all safety committee members on a regular basis.
5. Make it a point to go to the pot-washing area on a daily basis to thank those employees for a job well done. Emphasize the importance of their efforts.
6. Encourage food production employees (your pot washers’ internal customers) to take the time to thank the pot washers for their hard work and valuable contributions to the food production process.

If the purpose or vision that management proposes is only a financial profit for the organization or its owners, employees will rarely share the vision, even if it is strongly communicated. If management’s vision, however, includes the vital importance of each employee’s efforts, then each employee can share that vision. A shared purpose between management and employee is important for the development and maintenance of high morale. It is just not enough for management to feel that employees should be “glad to have a job.” This type of attitude by management results in high employee turnover and lost productivity.

Employee turnover can be high in some sections of the hospitality industry. By some estimates, it exceeds 200 percent per year. You can measure turnover in your own operation by using the following formula:

$$\frac{\text{Number of employees separated}}{\text{Number of employees in workforce}} = \text{Employee turnover rate}$$

For example, assume that you have a total of 50 employees in your foodservice operation. In the past year, you replaced 35 employees. Your turnover rate is computed as follows:

$$\frac{35 \text{ employees separated}}{50 \text{ employees in workforce}} = 70\% \text{ turnover rate}$$

Employee separation is the term used to describe employees who have either quit, been terminated, or in some other manner have “separated” themselves from the operation. The number of employees in the workforce refers to the average number of people employed by the operation during a given time period. It is computed by adding the number of employees at the beginning of the time period being evaluated to the number of employees at the end of the same period and dividing the sum by two.

Some foodservice operators prefer to distinguish between voluntary separation and involuntary separation. A **voluntary separation** is one in which the employee

HERE'S HOW IT'S DONE 7.1

The formula used to calculate employee turnover rate is a simple one:

$$\frac{\text{Number of employees separated}}{\text{Number of employees in workforce}} = \text{Employee turnover rate}$$

Number of employees separated is the numerator in the formula. It simply refers to the number of employees that have left the organization during a defined accounting period; such as a month or a year.

Number of employees in workforce is the denominator in the formula. It represents the *average* number of workers employed in an organization. For that reason, managers calculating their employee turnover rates must identify the number of employees on staff at the beginning of the accounting period and the number on staff at the end of the accounting period. They then divide by two (2) to get the average number of employees on staff.

For example, in an organization that employed 40 people at the beginning of the year but, due to increase sales, employed 50 people at the end of the year, the

calculation for the number of employees in the workforce calculation would be:

$$\frac{40(\text{beginning of the period employees}) + 50(\text{end of the period employees})}{2} = 45 \text{ number of employees in workforce}$$

If 18 employees were replaced during the year, the employee turnover rate for this operation would be:

$$\frac{18}{45} = 40\% \text{ turnover}$$

Using the *average* number of employees in the workforce when calculating an operation's turnover rate makes the turnover rate formula more accurate because it accounts for increases or decreases in the total number of staff members employed in the operation during the time period for which the employee turnover rate is being calculated.

made the decision to leave the organization. This may be due, for example, to retirement, a better opportunity in another organization, or relocation to another town. An **involuntary separation** is one in which management has caused the employee to separate from the organization. This may have been, for example, terminating the employee because of poor attendance or violation of procedures or policy or as a result of a reduction in the workforce.

Some managers want to know the amount of turnover that is voluntary compared to that which was involuntary. For example, excessively high voluntary turnover rates may be a signal that wages and salaries are too low to keep your best employees. High involuntary turnover rates might mean that employee screening and selection techniques need to be reviewed and improved. If it is your preference, you can modify the turnover formula to create these two ratios:

$$\frac{\text{Number of employees involuntarily separated}}{\text{Number of employees in workforce}} = \text{Involuntary employee turnover rate}$$

$$\frac{\text{Number of employees voluntarily separated}}{\text{Number of employees in workforce}} = \text{Voluntary employee turnover rate}$$

Whether separation is involuntary or voluntary, turnover is expensive. In both cases, an operation will incur employee turnover costs that are both actual and hidden. Actual costs, such as those involved in advertising the position vacancy, interviewing and new employee training time required are easy to determine. The hidden costs are harder to quantify but can cost dearly in an operation with a high turnover rate. Increased china and glassware breakage may result as a new dishwasher learns the job. A new server may provide slower customer service, or a new cook may cause an increase in waste or improperly prepared food.

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Good foodservice managers regularly calculate and closely monitor their turnover rates. High turnover rates can mean trouble. Low turnover rates most often means that employee morale is high and workers feel good about the operations that employ them.

MENU

A major factor in employee productivity is the foodservice operation's actual menu. The items that you elect to serve on your menu will have a profound effect on your employees' ability to produce the items quickly and efficiently.

In general, the more variety of menu items a kitchen is asked to produce, the less efficient that kitchen will be. Of course, if management does not provide the guest with enough choices, loss of sales may result. Clearly, neither too many nor too few menu choices should be offered. The question for management is, "How many are too many?" The answer depends on the operation, the skill level of employees, and the level of menu item variety management feels is necessary to properly service its guests.

Menus that continuously expand are costly, in many ways. The quick-service unit that elects to specialize in hamburgers can prepare them quickly and efficiently. If the same restaurant decides to add pizza, tacos, salads, tofu wraps, and fried chicken strips, its management may find that not only are employees less productive but also guests are confused as to what the operation really is. Again, the dilemma management faces is to serve the widest variety of menu items possible but not so many as to reduce employee productivity.

Although the number of menu items produced is important, so is the type of item. Obviously, a small diner with one deep-fat fryer will have production problems if the day's specials are fried fish, fried chicken, and a breaded fried vegetable platter! Menu items must be selected to complement the skill level of the employees and the equipment available to produce the menu items. Most foodservice operations change their menu fairly infrequently. Print and signage costs are often high, and restaurateurs are most often reluctant to radically change their product offerings. Thus, it is extremely important that the initial menu items selected by management are items that can be prepared efficiently and serviced well. If this is done, productivity rates will be high, and so will guest satisfaction.

CONVENIENCE FOOD USE VERSUS SCRATCH PREPARATION

Few, if any, foodservice operators today make all of their menu items from scratch. Indeed, there is no real agreement among operators as to what *scratch cooking* or *on-site cooking* truly is. Canned fruits, frozen seafood, and ready-to-bake pastries are examples of foods that would not be available to many guests if it were not for the fact that they were processed to some degree before they were delivered to the foodservice operator's door. At one time, presliced white bread was even considered by some in foodservice as a convenience food. Today, of course, this is considered a staple.

Some foods, such as canned cheese sauce, can be modified by an operator to produce a unique item. This can be done by the addition of special ingredients according to the standardized recipe, with the intent of creating a product served only by that foodservice operation.

The decision of whether to "make" or "buy" a specific menu item involves two major factors. The first is, of course, product quality. In general, if an operation can make a product that is superior to the one it can buy from a supplier, it should produce that item. The second factor, product cost, is also a major issue. It is possible that management determines that a given menu item can be made in-house

and that it is a superior product. The cost of preparing that product, however, may be so great that it is simply not cost effective to do so. Fortunately, convenience products are becoming more quality driven and less expensive due to advances in technology and increased competition among the major food suppliers.

To illustrate the impact on labor costs of the make versus buy decision, consider the situation that would arise if you managed a quick-service Mexican restaurant. One of the items that you use is frijoles; cooked and seasoned pinto beans, which are mashed prior to serving.

Assume that you use 50 edible portion (EP) pounds of these beans per day. You can buy the seasoned beans in cans for 80 cents per pound. Your EP cost per pound with the canned product includes only the cost of the beans. In addition, you would incur the labor cost required to open the cans and heat the beans, as well as the cost of cooking fuel.

If you were to make the frijoles from scratch, assume your food cost would go down to 36 cents per pound; the price you would pay for dried pinto beans and needed seasonings. This represents a savings in food cost of over 50 percent. In this example, it appears that making this menu item from scratch would save your operation money. The complete story, however, can only be viewed when you also consider the labor cost required to produce the frijoles.

Figure 7.5 details the hypothetical costs involved in the decision that you must make, assuming a usage of 50 pounds of product per day and a labor cost of \$11.00 per hour to both cook the beans and clean up the production process.

As you can see in this example, you would experience a reduction in your cost of food if you made the frijoles from scratch but an *increase* from \$11.00 to \$44.00 in the cost of labor because your own employees must now complete the cooking process. In the case of frijoles, your decision might well be to purchase the convenience item, if it is of acceptable quality, rather than make it from scratch because the *overall* food and labor cost would be less.

Management, often in consultation with kitchen production staff, must address a large number of make-or-buy decisions. It is important to note, however, that these decisions affect both food *and* labor costs. One cannot generally achieve significant food cost savings items without expending additional labor dollars. Conversely, when a manager elects to buy a convenience item, rather than make the item from scratch, food costs tend to rise, but labor costs most often would decline. In general, labor productivity in your operation will rise when you elect to buy, rather than make from scratch, any item that you cannot produce efficiently. This may be due to specialized skills required, as is the case with some purchased gourmet bakery items, or it could simply be a case of your supplier having the tools and equipment necessary to do a time-consuming task at a great savings to you, such as the case of buying a prechopped, frozen onion. It is important, however, that you do not fall into the trap of electing to buy more convenience-type items without reducing your labor expenditures. When that happens, you lose in terms of both higher food costs and higher-than-required labor costs.

FIGURE 7.5 Frijoles: 50 Pounds

Component	Cost of Convenience Product	Cost of Scratch Product
Beans	\$40.00 (\$0.80/lb.)	\$18.00 (\$0.36/lb.)
Seasoning	0	2.00
Labor	11.00 (1 hour)	44.00 (4 hours)
Fuel	1.40	4.40
Total Cost	\$52.40	\$68.40

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EQUIPMENT/TOOLS

In most cases, foodservice productivity ratios have not increased as much in recent years as have those of other businesses. Much of this is due to the fact that we are a labor-intensive, not machine-intensive, industry. In some cases, equipment improvements have made kitchen work easier. Slicers, choppers, and mixers have replaced human labor with mechanical labor. However, robotics and automation are not yet a part of our industry in any major way. Nonetheless, it is critical for you to understand the importance of a properly equipped workplace and how that improves productivity. This can be as simple as understanding that a sharp knife cuts more quickly and better than a dull one or as complex as deciding which wireless system will be used to provide data and communication links to the 1,000 stores in a quick-service restaurant chain. In either case, management must ask itself a fundamental question: “Am I providing my employees with the tools necessary to do their job effectively?” The key word in that question is *effectively*. If the proper tools are provided but they are mounted at the wrong height, placed in the wrong location, or unavailable at the right time, the tools will not be used effectively. Similarly, if the proper tools are provided but employees are not adequately trained in their use, productivity gains will not occur. In all cases, it is part of your job to provide your employees with the tools they need to do their jobs quickly and effectively.

SERVICE LEVEL DESIRED

It is simply a fact that the average quick-service employee can serve more guests in an hour than the best server at an exclusive fine dining restaurant. The reason for this is quite obvious. In the quick-service operation speed, not total level of service rendered, is of the utmost importance. In the fine dining restaurant, service is to be more elegant and the personal service delivered is of a much higher level. Thus, when you vary service levels, you also vary employee productivity ratios.

In the past, foodservice managers focused very heavily on speed of service. Although that is still important today, many operators are finding that guests expect and demand higher levels of service than ever before. If this trend continues, one could expect that foodservice productivity levels will tend to go down. To prevent this from happening, foodservice operators will need to become very creative in finding ways to improve employee productivity in other areas (for example, through training and improved morale) so that these “savings” can be used to provide the higher level of customer service demanded by today’s sophisticated foodservice consumer.

Now that we have closely examined factors that directly impact employee productivity and know what management can do to affect them, we return to the original question, “How many employees are needed?” The key to knowing how many are needed to effectively operate a foodservice unit lies in developing and applying productivity standards.

There are several measures of employee productivity used in the foodservice industry. You will learn about the most popular of these and examine their weaknesses and strengths. In the final analysis, the best productivity measure for any unit you manage is the one that makes the most sense for your unique operation.

MEASURING CURRENT LABOR PRODUCTIVITY

There is a variety of ways managers measure productivity in the hospitality industry. We will examine six of them:

1. Labor cost percentage
2. Sales per labor hour

3. Labor dollars per guest served
4. Guests served per labor dollar
5. Guests served per labor hour
6. Revenue per available seat hour (RevPASH)

LABOR COST PERCENTAGE

Perhaps the most commonly used measure of employee productivity in the food-service industry is the **labor cost percentage**. It is computed as:

$$\frac{\text{Cost of labor}}{\text{Total sales}} = \text{Labor cost \%}$$

A labor cost percentage allows an operation's managers to measure the cost of labor used to generate a known quantity of sales. It is important to realize, however, that there are actually several ways managers could define cost of labor. You should select the one that makes the most sense for your own operation. Cost of labor, as previously mentioned, includes both payroll and total labor costs, including benefits. To measure productivity, you may elect, for example, to include only hourly staff wages or staff wages and salary costs, but not total labor costs. This approach makes sense if, for example, in your operation you have the ability to control only your payroll costs and not your total labor costs. Remember, however, that when comparing your labor cost percentage with those of other foodservice units, it is important that you make sure both your unit and the one you are comparing use the same formula for your computations. If you do not, your comparisons will not accurately reflect true differences between the units.

Controlling the labor cost percentage is extremely important in the foodservice industry because it is often used to assess the effectiveness of a manager. If labor cost percentage increases beyond what is expected, management will be held accountable.

Labor cost percentage is a popular measure of productivity, in part, because it is so easy to compute and analyze. Consider the case of Roderick, a foodservice manager in charge of a table service restaurant in a year-round theme park. The unit is popular and has a \$20 per guest check average. Roderick uses only payroll (staff wages and management salaries) when determining his overall labor cost percentage because he does not have easy access to the actual cost of taxes and benefits provided to his employees. These labor-related expenses are considered by Roderick's supervisor to be noncontrollable and beyond Roderick's immediate influence.

Roderick has computed his labor cost percentage for each of the last four weeks using the labor cost percentage formula. His supervisor has given Roderick a goal of 35 percent for the four-week period. Roderick feels that he has done well in meeting that goal. Figure 7.6 shows Roderick's four-week performance.

FIGURE 7.6 Roderick's 4-Week Labor Cost % Report

Week	Cost of Labor	Total Sales	Labor Cost %
1	\$ 7,100	\$18,400	38.6%
2	8,050	21,500	37.4%
3	7,258	19,100	38.0%
4	6,922	24,800	27.9%
Total	\$29,330	\$83,800	35.0%

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Using the labor cost percentage formula and the data in Figure 7.6, Roderick's labor cost percentage is calculated as:

	$\frac{\text{Cost of labor}}{\text{Total sales}} = \text{Labor cost \%}$
That is,	$\frac{\$29,330}{\$83,800} = 35\%$

While Roderick did achieve a 35 percent labor cost for the four-week period, Madeline, his supervisor, is concerned because she received many negative comments in week 4 regarding poor service levels in Roderick's unit. Some of these were even posted online, and Madeline is concerned about the postings' potential impact on future visitors to the park's foodservice operations. When she carefully analyzes the numbers in Figure 7.6 she sees that Roderick far exceeded his goal of a 35 percent labor cost in weeks 1 through 3 and then reduced his labor cost to 27.9 percent in week 4.

Although the monthly overall average of 35 percent is within budget, she knows all is not well in this unit. Roderick elected to reduce his payroll in week 4, and yet it is clear from the negative guest comments that, at a 27.9 percent labor cost, service to his guests suffered. That is, too few employees were on staff to provide the necessary guest attention. As you can see, one disadvantage of using an overall labor cost percentage is that it can hide daily or weekly highs and lows.

In Roderick's operation, labor costs were too high the first three weeks and too low in the last week, but he still achieved his overall target of 35 percent. Recall from the discussion about percentages in Chapter 1 that the total labor cost of 35 percent indicates that, for each dollar of sales generated, 35 cents was paid to the employees who assisted in generating those sales. In many cases, a targeted labor cost percentage is viewed as a measure of employee productivity and, to some degree, management's skill in controlling labor costs.

In addition to its tendency to mask productivity highs and lows, labor cost percentage has some additional limitations as a measure of productivity. Notice, for example, what happens to this measure of productivity if all of Roderick's employees are given a 5 percent raise in pay. If this were the case, Roderick's labor cost percentages for last month would be calculated as shown in Figure 7.7.

Note that labor now accounts for 36.8 percent of each dollar sales value. It is important to realize that Roderick's workforce did not become less productive simply because they got a 5 percent increase in pay.

Labor cost percentage varies with changes in the price paid for labor. When the price paid for labor increases, labor cost percentage increases. When the price paid for labor decreases, labor cost percentage decreases. Because of this, using labor cost percentage alone to evaluate workforce productivity can sometimes be misleading.

FIGURE 7.7 Roderick's 4-Week Revised Labor Cost % Report (Includes 5% pay increase)

Week	Original Cost of Labor	5% Pay Increase	Cost of Labor (with 5% Pay Increase)	Total Sales	Labor Cost %
1	\$ 7,100	\$ 355.00	\$ 7,455.00	\$18,400	40.5%
2	8,050	402.50	8,452.50	21,500	39.3%
3	7,258	362.90	7,620.90	19,100	39.9%
4	6,922	346.10	7,268.10	24,800	29.3%
Total	\$29,330	\$1,466.50	\$30,796.50	\$83,800	36.8%

FIGURE 7.8 Roderick's 4-Week Revised Labor Cost % Report: (Includes 5% Increase in Selling Price)

Week	Cost of Labor	Original Sales	5% Selling Price Increase	Sales (with 5% Selling Price Increase)	Labor Cost %
1	\$ 7,100	\$18,400	\$ 920	\$19,320	36.7%
2	8,050	21,500	1,075	22,575	35.7%
3	7,258	19,100	955	20,055	36.2%
4	6,922	24,800	1,240	26,040	26.6%
Total	\$29,330	\$83,800	\$4,190	\$87,990	33.3%

To see another example of the limitations of labor cost percentage as a measure of labor productivity, consider the effect on labor cost percentage of increasing selling prices. Return to the data in Figure 7.6 and assume that Roderick's unit raised all menu prices by 5 percent prior to the beginning of the month. Figure 7.8 shows how an increase of this size in his selling prices would affect his labor cost percentage.

Note that increases in selling prices (assuming no decline in guest count or changes in buying behavior) will result in decreases in the labor cost percentage. Alternatively, lowering selling prices without increasing total revenue will result in increased labor cost percentage.

Although labor cost percentage is easy to compute and widely used, it is difficult to use as a measure of productivity over time because it depends on labor dollars spent and sales dollars received for its computation. Even in relatively noninflationary times, wages do increase and menu prices are adjusted. Both activities affect labor cost percentage but not worker productivity. In addition, institutional foodservice settings, which often have no dollar sales figures to report, can find that it is not easily possible to measure labor productivity using labor cost percentage because they generally calculate and report guest counts or number of meals served rather than sales dollars earned.

SALES PER LABOR HOUR

It has been said that the most perishable commodity any foodservice operator buys is the labor hour. When labor is not productively used, it disappears forever. It cannot be "carried over" to the next day, like an unsold head of lettuce or a slice of turkey breast. It is for this reason that some foodservice operators prefer to measure labor productivity in terms of the amount of sales generated for each labor hour used. This productivity measure is called **sales per labor hour**. The formula for computing this measure of labor productivity is:

$$\frac{\text{Total sales}}{\text{Labor hours used}} = \text{Sales per labor hour}$$

In this formula, labor hours used is simply the sum of all labor hours paid for by the operation in a specific sales period. Consider Roderick's labor usage and the resulting sales per labor hour information presented in Figure 7.9.

In this example, sales per labor hour ranged from a low of \$19.50 in week 1 to a high of \$28.66 in week 4. Operators who compute sales per labor hour do so because they feel it is a better measure of labor productivity than the labor cost percentage.

Sales per labor hour will vary with changes in selling prices (as does the labor cost percentage), but it will not vary based on changes in the price paid for

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FIGURE 7.9 Roderick's 4-Week Sales per Labor Hour

Week	Total Sales	Labor Hours Used	Sales per Labor Hour
1	\$18,400	943.5	\$19.50
2	21,500	1,006.3	\$21.37
3	19,100	907.3	\$21.05
4	24,800	865.3	\$28.66
Total	\$83,800	3,722.4	\$22.51

labor. In other words, increases and decreases in the price paid per hour of labor will not affect this productivity measure. On the negative side, however, sales per labor hour neglects to consider the hourly amount paid to employees per hour to generate the sales. As a result, a foodservice unit paying its employees an average of \$10.00 per hour could, using this type of measure for labor productivity, have the same sales per labor hour as a similar unit paying \$12.00 for each hour of labor used. Obviously, the manager paying \$10.00 per hour has paid less for an equally productive workforce if the sales per labor hour used are the same in the two units.

Many managers, particularly those managing commercial foodservice operations, like utilizing the sales per labor hour productivity measure because records on both the numerator (total sales) and the denominator (labor hours used) are readily available. However, depending on the record-keeping system employed, it might be more difficult to determine total labor hours used than total labor dollars spent. This is especially true when large numbers of employees are paid by salary rather than those paid by the hour. The efforts of both salaried managers and hourly paid staff should be considered when computing a facility's overall sales per labor hour used.

LABOR DOLLARS PER GUEST SERVED

Had Roderick preferred, he might have measured his labor productivity in terms of the labor dollars spent per guest served his operation. This productivity measure is called **labor dollars per guest served**. The formula for this measure is:

$$\frac{\text{Cost of labor}}{\text{Guests served}} = \text{Labor dollars per guest served}$$

Using Roderick's data, the labor dollars per guest served computation would be as shown in Figure 7.10.

FIGURE 7.10 Roderick's 4-Week Labor Dollars per Guest Served

Week	Cost of Labor	Guests Served	Labor Dollars per Guest Served
1	\$ 7,100	920	\$7.72
2	8,050	1,075	\$7.49
3	7,258	955	\$7.60
4	6,922	1,240	\$5.58
Total	\$29,330	4,190	\$7.00

In this example, the labor dollars expended per guest served for the four-week period would be computed as follows:

$$\frac{\$29,330}{4,190} = \$7.00$$

Using this measure of productivity, it is fairly easy to see why Roderick experienced guest complaints during the fourth week of operation. Note that in the first three weeks, he “supplied” his guests with more than \$7.00 of guest-related labor costs per guest served, but in the fourth week that amount fell to less than \$6.00 per guest.

As is the case with labor cost percentage, labor dollars per guest served is limited in that it will vary based on the price paid for labor. It is not, however, affected by changes in menu prices.

GUESTS SERVED PER LABOR DOLLAR

A variation on the formula of labor dollars per guest served is to reverse the numerator and denominator to create a new productivity measure, which is **guests served per labor dollar**. The formula for this measure of labor productivity is:

$$\frac{\text{Guests served}}{\text{Cost of labor}} = \text{Guests served per labor dollar}$$

Had Roderick wanted to use the guests served per labor dollar, his labor productivity data could have been calculated as is presented in Figure 7.11.

In this situation, Roderick served, for the four-week average, a total of 0.143 guests for each labor dollar expended. As a measure of labor productivity, guests served per labor dollar spent has several advantages. First, it can be used by food-service units, such as institutions, that do not routinely record dollar sales figures. Also, this measure is relatively easy to compute because you are very likely to keep records of the total number of guests you serve on a daily basis.

GUESTS SERVED PER LABOR HOUR

Guests served per labor hour is another powerful and popular measure of labor productivity:

$$\frac{\text{Guests served}}{\text{Labor hours used}} = \text{Guests served per labor hour}$$

The *guests served per labor hour* productivity measure is especially powerful because it includes neither dollar sales figures nor labor dollar expense in its computation. That means it is free from variations due to changes in menu selling prices and changes in the price paid for labor.

FIGURE 7.11 Roderick's 4-Week Guests Served per Labor Dollar

Week	Guests Served	Cost of Labor	Guests Served per Labor Dollar
1	920	\$ 7,100	0.130
2	1,075	8,050	0.134
3	955	7,258	0.132
4	1,240	6,922	0.179
Total	4,190	\$29,330	0.143



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FIGURE 7.12 Roderick's 4-Week Guests Served per Labor Hour

Week	Guests Served	Labor Hours Used	Guests Served per Labor Hour
1	920	943.5	0.975
2	1,075	1,006.3	1.068
3	955	907.3	1.053
4	1,240	865.3	1.433
Total	4,190	3,722.4	1.126

Guests served per labor hour is strong in its ability to measure productivity gains across time due to changes that are unrelated to selling prices or wages paid. It is also extremely useful in comparing similar operating units in areas with widely differing wage rates or selling prices. Thus, it is popular with multiunit corporations comparing operational units in diverse geographic regions. It is also useful in comparing dissimilar facilities with similar wages and selling prices because it can help identify areas of weakness in management scheduling, employee productivity, facility layout and design, or other factors that can affect labor productivity.

Had Roderick elected to evaluate his workforce productivity through the use of the guests served per labor hour formula, his data would look like that shown in Figure 7.12.

As the data show, Roderick's guests served per labor hour ranges from a low of 0.975 guests per hour (week 1) to a high of 1.433 guests per hour (week 4). The average for the four-week period is 1.126 guests served per labor hour (4,190 guests served $\div$ 3,722.4 hours used = 1.126 guests per labor hour). Note that, in week four, the number of guests served per worker hour used was higher than in previous weeks, the result of which was poor guest service and the source of Roderick's increased customer complaints.

Managers who use guests served per labor hour as a measure of productivity generally do so because they like its focus on service levels and not merely costs. However, it may be more difficult and time consuming to compute this measure of productivity

Consider the Cost

"You wanted to see me, sir?" said Francis to the clearly agitated guest seated at the six-top table in the corner of Chez Lapin, the upscale French Bistro-style restaurant that Francis managed.

"I've been waiting 10 minutes for my waiter to bring us our check. And as slow as he's been, it will probably take another 10 minutes to process my credit card. I just want to pay and leave. The food was fine, but this service is ridiculous!"

"I'm really sorry, sir. I'll find your server," replied Francis, as he glanced around the dining room. As he did, he noticed several unbussed tables that were littered with dirty dishes, as well as the hostess stand where the line of guests waiting to be seated hadn't gotten any smaller in nearly an hour.

When Francis entered the kitchen looking for the disgruntled guest's server, he was surprised to see several of the line cooks relaxing on the production line.

"How's it going back here tonight?" asked Francis, as he glanced around the kitchen.

"No problems. Just waiting for the orders to come in boss," replied Sasha, the sous chef in charge of the production line. "We're keeping up easily."

Assume that all of the workers at Chez Lapin are well trained and highly motivated:

1. Do you think the servers are likely doing their best to provide good service to the restaurant's guests? If you believe so, then why was the guest in this scenario unhappy?
2. What do you think is the cause of a consistently long line of waiting diners when there are numerous vacant, but unbussed, tables in the dining room?
3. The sous chef in this case said, "We're keeping up easily." Do you think that means they are being very efficient and, thus, very productive? Explain your answer.

because you must compute the number of labor hours used as well as make decisions on how to define a guest. For example, in an outdoor café, a guest who orders a cup of coffee is indeed a guest, but he or she requires much less service than one who consumes a full meal. Unless you decide differently, however, the guests served per labor hour productivity measure would treat these two guests in the same manner.

REVENUE PER AVAILABLE SEAT HOUR (RevPASH)

The final assessment of productivity that you should know about is also the newest. Dr. Sheryl E. Kimes has developed and advocates the use of **revenue per available seat hour (RevPASH)** as a way to measure the efficiency with which commercial restaurants manage their operations. RevPASH helps managers evaluate both how much guests purchase and how quickly they are served. It does so primarily by assessing average sales per guest (check average) you learned about in Chapter 2 and the average duration of guests' dining experiences. Duration is simply the length of time customers occupy a seat or table.

Although you will not generally have the ability to directly control the menu items your guests will purchase, the time it takes them to eat, or how long they linger after eating, RevPASH can give you a good idea of the speed at which your kitchen produces your menu items and the time it takes your service personnel deliver them.

To calculate RevPASH, you must be able to identify the number of diners you serve each hour, as well as the amount these guests spend (revenue). Typically, this information is easily retrieved from your operation's point of sale (POS) system. In addition, you must know the number of dining room seats available to your guests as well as the number of hours those seats were available. The formula for this measure of productivity is:

$$\frac{\text{Revenue}}{\text{Available seat hours}} = \text{Revenue per available seat hour (RevPASH)}$$

To illustrate, assume that Roderick's operation had 100 seats and that it was open for dinner from 5:00 to 10:00 p.m. Figure 7.13 shows the revenue his operation generated during each of the hours he was open last Friday.

Roderick calculates the total available seat hours in his operation simply by taking the number of seats available for guests and multiplying that number by the number of hours those seats are available: (Available seats $\times$ Hours of operation = Available seat hours). Note that, on average, Roderick fills 80 percent of his seats at a RevPASH of \$40.70.

FIGURE 7.13 Revenue per Available Seat Hour (RevPASH)

For: Last Friday Night				
Hour	Available Seats	Guests Served	Revenue	RevPASH
4–5 P.M.	0	0	\$ 0.00	\$ 0.00
5–6 P.M.	100	25	1,500.00	15.00
6–7 P.M.	100	75	3,700.00	37.00
7–8 P.M.	100	100	5,200.00	52.00
8–9 P.M.	100	100	5,150.00	51.50
9–10 P.M.	100	100	4,800.00	48.00
10–11 P.M.	0	0	0.00	0.00
Total	500	400	\$20,350.00	\$40.70
% Seats Sold = 400/500 = 80%				

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His operation is most efficient from 7:00 to 10:00 p.m., as can be determined by a higher than average (\$40.70) RevPASH for each of these hours. If Roderick could add incentives to attract or move diners to earlier times (5:00 to 6:00 p.m.), or perhaps stay open later (10:00 to 11:00 p.m.), an increase in his RevPASH and his potential profit could be considerable.

Also, note that if Roderick could increase his seat turnover (i.e., if in one hour he served 120 guests in 100 seats), his operation's RevPASH could also increase significantly. It is important to realize that RevPASH does not directly utilize the price paid for labor in its evaluation of operational efficiency. Managers using this measure, however, gain valuable information about when their operations' labor needs are the greatest. They can then use that information to efficiently schedule workers for each hour the operation is serving guests.

It is widely believed that work really does magically expand to meet (and often exceed!) the number of people available to do the job, and so measures of productivity must be available to guide management in making labor productivity assessments. Figure 7.14 summarizes the six productivity measures addressed in this chapter and lists some advantages and disadvantages associated with each. You may

FIGURE 7.14 Productivity Measures Summary

Measurement	Advantages	Disadvantages
$\text{Labor cost \%} = \frac{\text{Cost of labor}}{\text{Total sales}}$	1. Easy to compute 2. Most widely used	1. Hides highs and lows 2. Varies with changes in price of labor 3. Varies with changes in menu selling price
$\text{Sales per labor hour} = \frac{\text{Total sales}}{\text{Labor hours used}}$	1. Fairly easy to compute 2. Does not vary with changes in the price of labor	1. Ignores price per hour paid for labor 2. Varies with changes in menu selling price
$\text{Labor dollars per guest served} = \frac{\text{Cost of labor}}{\text{Guests served}}$	1. Fairly easy to compute 2. Does not vary with changes in menu selling price 3. Can be used by non-revenue-generating units	1. Ignores average sales per guest and, thus, total sales 2. Varies with changes in the price of labor
$\text{Guests served per labor dollar} = \frac{\text{Guests served}}{\text{Cost of labor}}$	1. Fairly easy to compute 2. Does not vary with changes in menu selling price 3. Can be used by non-revenue-generating units	1. Ignores average sales per guest and, thus, total sales 2. Varies with changes in the price of labor
$\text{Guests served per labor hour} = \frac{\text{Guests served}}{\text{Labor hours used}}$	1. Can be used by non-revenue-generating units 2. Does not change due to changes in price of labor or menu selling price 3. Emphasizes serving guests rather than reducing costs	1. Time consuming to produce 2. Ignores price paid for labor 3. Ignores average sales per guest and, thus, total sales
$\text{RevPASH} = \frac{\text{Revenue}}{\text{Available seat hours}}$	1. Measures overall efficiency in seating and selling products to guests 2. Identifies most and least efficient serving periods 3. Assesses how much guests buy and how long it takes to serve them their selections	1. Most suitable for commercial operations 2. Varies with changes in menu selling price 3. Does not utilize the price paid for labor in its calculation 4. Requires a detailed data collection/reporting system

select one or more of the measures described previously or create your own measure. In most cases, it is recommended that you monitor your labor cost percentage (the easiest measure to compute) and at least one other measure of productivity if you are truly serious about controlling labor-related expenses.

SIX-COLUMN DAILY PRODUCTIVITY REPORT

Many operators, upon selecting a labor productivity measure, prefer to compute that measure on a daily, rather than on a weekly or monthly, basis. This can be done by using a six-column form similar to the one introduced in Chapter 5.

A six-column form for Roderick's restaurant sales and labor cost in week 1 is presented in Figure 7.15.

To estimate daily labor cost percentage (Cost of labor/Total sales = Labor cost %), the amounts in the Today columns are divided to create the Labor Cost % Today column, just as the amounts in the To Date columns are divided to create the Labor Cost % to Date column.

Roderick's daily labor cost percentage during Week 1 ranged from a low of 31.2 percent (day 7) to a high of 47.8 percent (day 2). The labor cost percentage for the week was 38.6 percent. Again, you can see the effect of averaging highs and lows when using measures of labor productivity.

Any of the six productivity-related measures can be calculated on a daily basis using a modification of the six-column form. Figure 7.16 details the method to be used to establish six-column forms for each of the six productivity measures presented in this chapter. When using the six-column report, it is important to remember that the To Date column value, on any given day, is always the sum of the values of all the preceding Today columns, including the current day.

FIGURE 7.15 Six-Column Labor Cost %

[illegible]

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FIGURE 7.16 Six-Column Labor Productivity Form

Measure of Productivity	Columns 1 & 2	Columns 3 & 4	Columns 5 & 6
Labor cost % = $\frac{\text{Cost of labor}}{\text{Total sales}}$	Cost of Labor Today Cost of Labor to Date	Sales Today Sales to Date	Labor Cost % Today Labor Cost % to Date
Sales per labor hour = $\frac{\text{Total sales}}{\text{Labor hours used}}$	Sales Today Sales to Date	Labor Hours Used Today Labor Hours Used to Date	Sales per Labor Hour Today Sales per Labor Hour to Date
Labor dollars per guest served = $\frac{\text{Cost of labor}}{\text{Guests served}}$	Cost of Labor Today Cost of Labor to Date	Guests Served Today Guests Served to Date	Labor Dollars per Guest Served Today Labor Dollars per Guest Served to Date
Guests served per labor dollar = $\frac{\text{Guests served}}{\text{Cost of labor}}$	Guests Served Today Guests Served to Date	Cost of Labor Today Cost of Labor to Date	Guests Served per Labor Dollar Today Guests Served per Labor Dollar to Date
Guests served per labor hour = $\frac{\text{Guests served}}{\text{Labor hours used}}$	Guests Served Today Guests Served to Date	Labor Hours Used Today Labor Hours Used to Date	Guests Served per Labor Hour Today Guests Served per Labor Hour to Date
Revenue per available seat hour = $\frac{\text{Revenue}}{\text{Available seat hours}}$	Revenue (Sales) Today Revenue (Sales) to Date	Available Seat Hours Today Available Seat Hours to Date	RevPASH Today RevPASH to Date

DETERMINING COSTS BY LABOR CATEGORY

Because of the various approaches used to measure effectiveness, it is not surprising that many operators find a single measure of their labor productivity is insufficient for their needs. Consider the case of Otis, the owner and operator of a restaurant called the Squirrel Flats Diner, which services both backpacking tourists and loggers taking a break from work at a nearby logging camp. Otis's sales last month were \$100,000. His labor costs were \$30,000. Thus, his labor cost percentage was 30 percent ($\$30,000 \div \$100,000 = 0.30$). Otis, however, knows more about his labor cost percentage than this overall number alone tells him. Figure 7.17 shows the method Otis uses to compute his overall labor cost percentage.

FIGURE 7.17 Labor Cost % for Squirrel Flats Diner

Time Period: 1/1–1/31		Sales: \$100,000
Labor Category	Cost of Labor	Labor Cost %
Production	\$12,000	12%
Service	9,000	9%
Sanitation	3,000	3%
Management	6,000	6%
Total	\$30,000	30%

Note that Otis divides his labor expense into four distinct labor subcategories. Production includes all those individuals who are involved with preparing the food Otis sells. Service includes all the servers and cashiers involved in delivering the food to guests and receiving guest payments. Sanitation consists of the individuals responsible for ware washing and after-hour cleanup of the establishment. Management includes the salaries of Otis's two supervisors.

By establishing four labor categories, Otis has a better idea of where his labor dollars are spent than if only one overall figure had been used. Just as it is often helpful to compute food cost percentages by category (see Chapter 5), it is often helpful to calculate more than one labor cost percentage or other measure of labor productivity.

Notice in Figure 7.17 that the sum of Otis's four labor cost percentage subcategories equals the amount of his total labor cost percentage:

$$12\% + 9\% + 3\% + 6\% = 30\%$$

You may establish any number of labor subcategories that makes sense for your own unique operation. Of course, you can apply any measure of labor productivity to these labor subcategories. There are three important points to remember when determining labor productivity measures by subcategory:

1. Be sure to include all the relevant data, whether it is amount spent, hours used, sales generated, or guests served.
2. Use the same method to identify the numerator and denominator for each category.
3. Compute an overall total to ensure that the sum of the categories is consistent with the overall total.

Keep these points in mind as you examine Figure 7.18, which details Otis's second measure of labor productivity. He has selected guests served per labor dollar as a supplement to his computation of labor cost percentage. Otis feels that this second measure helps him determine his effectiveness with guests without losing sight of the total number of dollars he spends on payroll expense. The formula he uses for this computation is:

$$\frac{\text{Guests served}}{\text{Cost of labor}} = \text{Guests served per labor dollar}$$

Note that each labor category in Figure 7.18 yields a different *guests served per labor dollar* figure. As could be expected, when labor dollars in a category are low, guests served per labor dollar in that category is relatively high. This is

FIGURE 7.18 Guests Served per Labor Dollar for Squirrel Flats Diner

Guests Served: <u>25,000</u>		Time Period: <u>1/1–1/31</u>
Labor Category	Cost of Labor	Guests Served per Labor Dollar
Production	\$12,000	2.083
Service	9,000	2.778
Sanitation	3,000	8.333
Management	6,000	4.167
Total	\$30,000	0.833

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clearly demonstrated in the Sanitation category of Figure 7.18. When labor dollars expended are high, as in the Total category, guests served per labor dollar is lower.

With the exception of RevPASH, each of the measures of labor productivity presented in this chapter can be subcategorized in any logical manner that is of value to management. The purpose of computing numbers such as these is, of course, that they are valuable in developing staff schedules and estimating future payroll costs. For example, assume that in one month Otis finds his labor cost percentage has exceeded his goal of 30 percent. By computing his guests served per labor dollar subcategory values, Otis can quickly see exactly where he has exceeded his goal and, thus, where he needs to make adjustments. In addition, if Otis knows that next month he is projecting 30,000 guests, he can estimate his labor costs for each subcategory. For example, by following the rules of algebra and adding the word “estimated,” the guests served per labor dollar formula can be restated as follows:

$$\frac{\text{Number of estimated guests served}}{\text{Guests served per labor dollar}} = \text{Estimated cost of labor}$$

From the data in Figure 7.18 and using the Production subcategory as an example, Otis estimates his production labor costs in a month where 30,000 guests are anticipated as follows:

$$\frac{30,000 \text{ guests served}}{2.083 \text{ guests per dollar}} = \$14,402.30$$

Using this estimation method, Otis knows his production-related costs for the month should be approximately \$14,402. Using the same estimated cost of labor formula, Otis can project and budget different labor costs for each of his subcategories, as well as his overall labor cost total. Using this information, Otis can prepare an employee schedule that uses the planned for amount of payroll cost and no more.

MANAGING PAYROLL COSTS

Professional foodservice operators always manage their payroll costs. Essentially, the management of payroll costs is a four-step process:

- Step 1.** Determine productivity standards.
- Step 2.** Forecast sales volume.
- Step 3.** Schedule employees using productivity standards and forecasted sales volume.
- Step 4.** Analyze results.

STEP 1. DETERMINE PRODUCTIVITY STANDARDS

The first step in controlling payroll costs is to determine productivity standards for your operation. A **productivity standard** is defined as a guideline that constitutes an appropriate productivity ratio in your foodservice operation. Thus, a productivity standard might be a particular labor cost percentage, or a specific number of guests served per labor dollar expended, or any other predetermined productivity ratio

FIGURE 7.19 Labor Cost % Summary

Unit Description	Labor Cost %
Unit 1	34.1%
Unit 2	35.5%
Unit 3	34.3%
Unit 4	35.2%
District Average	34.8%
Company Average	34.0%
Industry Average	35.5%

you want to utilize. In other words, you must find the answers to the questions of how long it should take an employee to do a job and how many employees it takes to do the complete job.

A productivity standard, then, is simply management's expectation of the productivity ratio of each employee. Establishing productivity standards for every employee is an essential management task and the first step in controlling payroll costs.

Thus far, we have discussed some methods of measuring current productivity ratios based on historical sales and expense data. This tells you where you are in relation to productivity, but it does not say where you should be. To illustrate this concept, assume that you have decided to buy and operate a franchise unit within a themed steakhouse chain. Currently, four units of the same chain exist in your immediate geographic area, which has been designated a district by the **franchisor**, the entity responsible for selling and maintaining control over the franchise brand's name.

The area franchisor representative who monitors labor productivity by using labor cost percentage has shared the following data with you, as shown in Figure 7.19.

The figures for units one to four represent labor cost percentages in those franchise steakhouse units in your district. The district average is the unweighted mean of those four units. Company average refers to the overall labor cost percentage in of the units franchised by the steakhouse chain you are joining. Industry average refers to the average labor cost percentage reported by theme-style steakhouses of the type similar to the one you will own and operate.

Using the data presented in Figure 7.19, you could begin to establish your own desired productivity measures and goals. Your restaurant is not yet open, so you face the problem of not having historical data from your own unit to help you. Of course, this is always the case when opening new restaurants, but it is also true when significantly changing the theme, decor, or menu of an existing restaurant.

Using your own judgment and the information you do have available, you could choose as your labor cost goal the lowest labor cost percentage (unit one); the highest (unit two); the district, company, or industry average; or even some other number not included in this listing. Any of these numbers could become your target, or ideal, labor cost percentage. In the final analysis, you must use whatever data you have available, as well as your own insight, to establish an appropriate productivity standard for your operation. Productivity standards are typically based on the following types of information:

1. Unit history
2. Company average

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3. Industry average
4. Management experience
5. A combination of two or more of the above

In this case, you might choose to begin with a 35 percent labor cost as one of your productivity standards. This figure is close to the district average (34.8%) and is likely an aggressive, but realistic, goal for your first year. As mentioned previously, you would likely want to choose at least one more measure of productivity to help you monitor your labor efficiency. In the years to come, you would want to effectively manage the factors that affect productivity, carefully monitor your actual productivity using the productivity measures you select and then establish a productivity goal that is both realistic and attainable.

STEP 2. FORECAST SALES VOLUME

Sales volume forecasting (see Chapter 2), when combined with established labor productivity standards, allows you to determine the number of employees that should be needed to effectively service your guests. All foodservice units must forecast sales volume if they are to supply an adequate number of employees to service that volume. This forecasting may be done in terms of either sales dollars or number of guests to be served.

An important, but frequently misunderstood, distinction must be made between forecasting sales volume and forecasting the number of employees needed to service that volume. The distinction is simply that, as a manager, you will view guests coming to your operation in “block” fashion, that is, in groups at a time. Employees, on the other hand, are added to your schedule one individual at a time and, thus, will significantly affect productivity measures. A brief example will make this clear. Ted owns a small shop that sells only specialty coffees. His service staff productivity standard is one server for each 30 guests. Thus, he schedules his employees as shown in Figure 7.20.

When 30 or fewer guests are expected, Ted needs only one server on duty. In effect, each time a block of 30 guests is added, Ted must add another server. Thus, if Ted anticipates 20 guests one day and 30 the next, no change in staff is necessary. That is, an addition of 10 extra guests does not dictate the addition of another server. On the other hand, if Ted anticipates 30 guests one day and 40 the next, an additional staff person is required because Ted has introduced a new block of guests.

It does not matter how much of the new block actually arrives; Ted has staffed for all of it. He hopes, of course, that all or nearly the entire block of guests will arrive because this will keep his cost per guest served lower. If only a small portion of the block comes, Ted’s cost per guest served will rise unless he takes some action to reduce his labor-related expense.

FIGURE 7.20 Ted’s Coffee Shop Staffing Guide

Number of Guests Anticipated	Number of Servers Needed
1–30	1
31–60	2
61–90	3
91–120	4

STEP 3. SCHEDULE EMPLOYEES USING PRODUCTIVITY STANDARDS AND FORECASTED SALES VOLUME

Forecasting sales volume is important to labor cost control because it begins to take managers out of the past and present and allows them to project into the future and significantly influence what will likely happen then.

To illustrate how established productivity standards (Step 1) are combined with sales forecasts (Step 2) to develop employee schedules (Step 3), consider Darla, the foodservice director at Langtree, a private college enrolling a high percentage of female students. Darla is responsible for operating both a residence hall feeding situation (Geier Hall) and an open snack bar/cafeteria (Lillie's Cafeteria and Snack Bar).

Geier Hall houses 1,000 young women. Lillie's Cafeteria and Snack Bar is open to all students, staff, and faculty of the school. Darla is committed to controlling all of her labor-related expense. As such, she has carefully monitored her past labor productivity ratios, those of other similar schools, and national averages. In addition, she has considered the facilities she operates, the skill level and morale of her workforce, and the impact of her aggressive training program on her employees' future productivity.

Because Lillie's generates a daily sales figure, Darla has determined that productivity in this operation should be measured using a labor cost percentage and that it should be able to operate at a labor cost of 30 percent.

In the residence hall, where dollar sales figures are replaced with daily guest counts, she has decided that her labor productivity measure should be guests served per labor hour. Her goal is a ratio of 30 to 1—that is, 30 guests served per labor hour expended. Darla may now develop her labor cost expense budget in terms of both dollars (Lillie's) and labor hours used (Geier Hall).

Figure 7.21 shows how Darla would establish her labor budget for Lillie's using her productivity standards, her sales forecast, and the labor cost percentage formula. Recall that the labor cost percentage formula is calculated as:

$$\frac{\text{Cost of labor}}{\text{Total sales}} = \text{Labor cost \%}$$

If you include the words *forecasted*, *standard*, and *budget* and then apply the rules of algebra, the labor cost percentage formula can be restated as follows:

$$\text{Forecasted total sales} \times \text{Labor cost \% standard} = \text{Cost of labor budget}$$

Thus, the cost of labor budget amount in the preceding formula becomes Darla's forecasted, or targeted, labor expense. To determine, for example, her targeted labor expense budget for Lillie's in week 1, and assuming her sales forecast for Lillie's for the period was \$6,550, Darla would compute her labor budget as:

$$\$6,550 \times 30\% = \$1,965$$

Figure 7.22 illustrates how Darla would establish a budget for total number of labor hours to be used to service Geier Hall residents. Recall that, in this food facility, sales refers to the number of guests served rather than dollars, and this is reflected in Darla's sales forecast. Also, remember that the guests served per labor hour formula is defined as follows:

$$\frac{\text{Guests served}}{\text{Labor hours used}} = \text{Guests served per labor hour}$$

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FIGURE 7.21 Labor Budget for Lillie's Cafeteria and Snack Bar Using Labor Cost %

Time Period	Forecasted Total Sales	Labor Cost % Standard	Cost of Labor Budget
Week 1	\$ 6,550	30%	\$1,965
Week 2	6,850	30%	2,055
Week 3	6,000	30%	1,800
Week 4	8,100	30%	2,430
Total	\$27,500	30%	\$8,250

If you include the words *forecasted*, *standard*, and *budget* and follow the rules of algebra, the guests served per labor hour formula can be restated as follows:

$$\frac{\text{Forecasted number of guests served}}{\text{Guests served per labor hour standard}} = \text{Labor hour budget}$$

Using week one in Figure 7.22 as an example, and assuming 20,000 meals would be served, the computation would be:

$$\frac{20,000 \text{ forecasted guests}}{30 \text{ guests served per labor hour standard}} = 666.7 \text{ labor hours}$$

Note that in Figures 7.21 and 7.22, Darla could have varied her weekly productivity standard and still have produced a four-week budget. In other words, on weeks when volume was high, she could have elected to reduce her desired labor cost percentage or increase the guests served per labor hour standard. This can be a logical course of action if the operator feels that increased volume can have the effect of reducing the cost percentage of fixed labor or can increase the number of guests served per labor hour by staff persons in specific positions, such as cashiers and managers. Experience tells Darla, however, that, in her case, a standard labor productivity ratio that remains unchanged across the four weeks is her best option.

From the labor hour budgets she developed, Darla can now schedule her production staff in terms of dollars to be spent for labor (Lillie's) and labor hours to be used (Geier Hall). She must be careful to schedule employees only when they are needed. To do this, she must forecast her volume in time blocks smaller than one-day segments. Perhaps, in her case, volume should be predicted in three periods (breakfast, lunch, and dinner) in the residence hall, and in one- or two-hour blocks in her snack bar/cafeteria.

To see how Darla might schedule her residence hall staff during week 1 of her four-week projection, assume that Darla's weekly projection of sales volume for Geier Hall is as presented in Figure 7.23.

FIGURE 7.22 Labor Budget for Geier Hall Using Guests Served per Labor Hour

Time Period	Forecasted Number of Guests Served	Guests Served per Labor Hour Standard	Labor Hour Budget
Week 1	20,000	30 guests/hour	666.7
Week 2	18,600	30 guests/hour	620.0
Week 3	18,100	30 guests/hour	603.3
Week 4	17,800	30 guests/hour	593.3
Total	74,500	30 guests/hour	2,483.3

FIGURE 7.23 Weekly Labor Hour Budget for Geier Hall

Day	Forecasted Number of Guests Served	Guests Served per Labor Hour Standard	Labor Hour Budget
1	3,000	30 guests/hour	100.0
2	2,900	30 guests/hour	96.7
3	2,900	30 guests/hour	96.7
4	2,850	30 guests/hour	95.0
5	3,000	30 guests/hour	100.0
6	2,700	30 guests/hour	90.0
7	2,650	30 guests/hour	88.3
Total	20,000	30 guests/hour	666.7

On any given day, Darla can match her volume projections with budgeted labor hours or dollars. To see exactly how she would use this information to determine her employees' schedules, let us examine day 1 in Figure 7.23, a day when Darla projects 3,000 guests (meals) served and 100 labor hours needed. She knows that she should "spend" no more than 100 total hours for labor on that day. She also knows, from recording her productivity ratio in the past (Figure 7.24), where she has spent her labor hours in prior time periods. Thus, Darla should invest approximately 60 hours (100 hours available $\times$ 0.60 average usage) for production employees, 30 hours for service employees, and 10 hours of management time for Monday if she is to stay within her labor budget while providing an adequate number of workers in each of the three categories of labor she monitors regularly.

Presented in a different way, Darla knows that, to stay within her labor goals, each labor category will have its own unique guests served per labor hour ratio, as noted in Figure 7.25. It is important to note that, although guests served per labor hour varies by labor category, the overall total yields 30 guests per labor hour used, which is Darla's productivity standard. Darla's employee schedule for the production area on Monday might look as shown in Figure 7.26.

FIGURE 7.24 Recap of Past Percentage of Total Usage by Category

Geier Hall	
Labor Category	% of Total
Production	60%
Service	30%
Management	10%
Total	100%

FIGURE 7.25 Recap of Guests Served per Labor Hour

Geier Hall			
Labor Category	Forecasted Number of Guests Served	Labor Hour Standard	Budgeted Guests Served per Labor Hour
Production	3,000	60	50
Service	3,000	30	100
Management	3,000	10	300
Total	3,000	100	30

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FIGURE 7.26 Employee Schedule

Unit Name: <u>Geier Hall</u>			Date: <u>Monday 1/1</u>	
Labor Category: <u>Production</u>		Shift: <u>A.M. and P.M.</u>	Labor Budget: <u>60 hours</u>	
Employee Name	Schedule	Hours Scheduled	Rate	Total Cost
Sally S.*	6:00 A.M.–2:30 P.M.	8	N/A	N/A
Tom T.*	6:30 A.M.–3:00 P.M.	8		
Steve J.*	8:00 A.M.–4:30 P.M.	8		
Lucy S.*	10:00 A.M.–6:30 P.M.	8		
Janice J.	7:00 A.M.–11:00 A.M.	4		
Susie T.	6:30 A.M.–10:30 A.M.	4		
Peggy H.	10:30 A.M.–1:30 P.M.	3		
Marian D.	2:00 P.M.–5:00 P.M.	3		
Larry M.*	11:00 A.M.–7:30 P.M.	8		
Jill D.*	1:00 P.M.–7:30 P.M.	6		
Total		60	N/A	N/A

*Includes 30-minute meal break.

Because employee schedules are based on the number of hours to be worked or dollars to be spent, an employee schedule form similar to the one in Figure 7.26 can be an effective tool in a daily analysis of labor productivity. Because labor is purchased on a daily basis it should be monitored on a daily basis. The labor schedule should even be adjusted as needed during the day. This constant adjustment is a key to the quick-service industry's profitability because schedule modifications by good managers in this segment of the industry are implemented hourly, not daily! In other words, if customer demand is lower than expected, employees can be released from the schedule to reduce labor costs. If volume is higher than expected, additional employees should be available on an "as needed" basis.

Some foodservice managers practice an **on-call** system in which employees who are off duty are assigned to on-call status. This means that these employees can be contacted by management on short notice to fill in for other employees who are absent. On-call employees may also be called in to work if customer demand suddenly increases. State laws vary regarding the compensation that must be paid to these on-call employees; thus, managers who use this method should know about existing state laws and their own company policies regarding the practice before it is implemented.

Other managers practice a **call-in** system, in which employees who are off-duty are required to check in with management on a daily basis to see if the predicted sales volume is such that they may be needed. This is a particularly good way to make rapid changes in staffing because of unforeseen increases in projected sales volume while minimizing the payment of overtime wages. **Overtime wages**, are those that must be paid at a higher than normal rate. Overtime wages should generally be held to a minimum and should require documented management approval before they are authorized.

In the case of Geier Hall, the Rate and Total Cost columns in Figure 7.26 are not computed because, in this unit, they are not part of the productivity measure (recall that guests served per labor hour relies on neither cost of labor nor sales revenue for its computation). They would, of course, be filled out when determining the cost of the schedule for Lillie's snack bar because, in that unit, it is labor dollars, not hours used, that is used to calculate the productivity standard. In all cases, an employee schedule, reviewed on a daily basis, should be established for each operating unit, labor category, and individual worker if managers are to match labor usage with projected volume.

Cost Control Around the World

Employee scheduling is directly affected by the laws, union contracts, and even the customs of the country in which a business operates. For example, Figure 7.27 details the amount of paid vacation earned by employees (who have worked at least one year) in several different countries in which US foodservice companies typically do business.

Additional regulations that can directly affect management's scheduling of employees include local child labor laws, overtime wage payment requirements, and union contract terms. The best managers ensure that their employee schedules always comply with the laws and requirements in place in those countries in which their operations are located.

FIGURE 7.27 Annual Earned Vacation Time

Country	Vacation Time Earned
Australia	No law, but 4 weeks is standard
France	5 weeks
Germany	4 weeks
Hong Kong	7 days
Mexico	6 days
Poland	18 days
Puerto Rico	15 days
South Africa	21 consecutive days
Spain	30 days
Sweden	5 weeks
Turkey	12 days
United Kingdom	EC directive (4 weeks annual leave)
Ukraine	24 calendar days
United States	No national requirement. Two weeks is common but not mandatory.

STEP 4. ANALYZE RESULTS

Darla has done a good job of using established labor standards and volume projections in building her employee schedule. To complete the job of managing labor-related expense, she should analyze her results.

Figure 7.28 details Lillie's actual and budgeted operating result for the first four weeks of the year.

To determine the percentage of budget, the following formula, introduced in Chapter 1, is used:

$$\text{Actual amount} \div \text{Budgeted amount} = \% \text{ of budget}$$

Note that total sales were somewhat less than budgeted (98%), whereas total labor cost dollars were somewhat higher than budgeted (102%). Consequently, labor cost percentage was somewhat higher than anticipated—in other words, a 31 percent actual result compared to a 30 percent budget percentage. Notice also that, when sales are projected perfectly (week 3) but labor dollars are overspent,

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FIGURE 7.28 Labor Recap for Lillie's Actual versus Budgeted Labor Cost

Week	Sales			Labor Cost			Labor Cost %	
	Budgeted	Actual	% of Budget	Budgeted	Actual	% of Budget	Budgeted	Actual
1	\$ 6,550	\$ 6,400	98%	\$1,965	\$1,867	95%	30%	29%
2	6,850	7,000	102%	2,055	2,158	105%	30%	31%
3	6,000	6,000	100%	1,800	1,980	110%	30%	33%
4	8,100	7,600	94%	2,430	2,430	100%	30%	32%
Total	\$27,500	\$27,000	98%	\$8,250	\$8,435	102%	30%	31%

the resulting labor cost percentage will be too high (33%). Conversely, when labor costs are exactly as budgeted (week 4) but sales volume does not reach its estimate, labor cost percent will similarly be too high (32%).

It may seem that a 1 percent variation in overall labor cost percentage is insignificant. In fact, in this case it represents \$185 (\$8,435 actual cost – \$8,250 budgeted cost = \$185). However, if a foodservice company achieved sales of \$30,000,000 per year, exceeding planned labor cost by 1 percent would represent a \$300,000 ($\$30,000,000 \times 0.01 = \$300,000$) per year cost overrun! Small percentages can add up. Only management can determine what constitutes a significant labor cost variation. Darla may well want to review standard scheduling techniques with her supervisors because she exceeded her budgeted labor cost in two of the four weeks shown. In Darla's case, \$185 may well be a significant budget variation.

When referring to labor costs, some foodservice operators use the term **standard labor cost**—that is, the labor cost needed to meet established productivity standards—rather than budgeted cost. If productivity standards are used to establish budgeted labor costs, then the two terms are synonymous. It is important to recognize that actual labor costs will often vary somewhat from standard labor costs unless guest counts and/or revenues can be predicted perfectly (which, of course, is rarely the case). We can, however, compare budgeted labor expense with actual results to determine if the reasons for the variation from budget are valid and acceptable to management. The complete process for establishing the labor schedule is summarized in the checklist contained in Figure 7.29.

FIGURE 7.29 Ten-Point Labor Schedule Checklist

- ☐ 1. Monitor historical operational data (or alternative data if historical data are not available).
- ☐ 2. Identify productivity standards.
- ☐ 3. Forecast sales volume.
- ☐ 4. Determine budgeted labor dollars or hours.
- ☐ 5. Divide monthly budget into weekly budgets.
- ☐ 6. Divide weekly budget into daily budgets.
- ☐ 7. Segment daily budget into meal period budgets.
- ☐ 8. Build schedule based on the budget.
- ☐ 9. Analyze service levels during schedule period.
- ☐ 10. Review and adjust productivity standards as needed.

REDUCING LABOR-RELATED COSTS

If through your analysis you find that your labor costs are too high, problem areas must be identified and corrective action must be taken. If the overall productivity of your work group cannot be improved, other action must be taken. The approaches that managers take to reduce labor-related costs are different for fixed payroll costs than for variable payroll costs. Figure 7.30 indicates strategies managers can use to reduce labor-related expense in each of these two categories. Notice that you can only decrease variable payroll expense by increasing productivity, improving the scheduling process, eliminating employees, or reducing wages paid. Fixed payroll expense can be reduced (as a percentage of revenue) by increasing sales volume.

One too-often-ignored way of increasing employee productivity, and thus reducing labor-related expense, is through employee empowerment. Employee empowerment results from a decision by management to fully involve employees in the decision-making process as far as guests and the employees themselves are concerned. **Empowerment** refers simply to the fact that, whereas it was once customary for management to make all decisions regarding every facet of the operational aspects of its organization and present them to its employees as inescapable facts to be accomplished, employees can be given the power to get involved.

Employees can be empowered to make critical decisions concerning themselves and, most importantly, those concerning guests. Many foodservice employees work closely with guests. Many guest-related problems in the hospitality industry can be easily solved when employees are given the power to make it “right” for the guest. Management has found in many cases that, through a well-planned and consistently delivered training program, and by empowering their employees, they are nurturing a loyal and committed workforce that is more productive, is supportive of management, and is willing to go the extra mile for guests. Doing so builds repeat sales and profits.

FUN ON THE WEB!

Monthly journals and daily Web briefings are important sources of management information related to managing employees. The Society for Human Resource Management (SHRM) is a great source of human resource management-related information. Visit its website. While you are there, browse “Publications.” Also consider a daily reading of the “HR News” column.

FIGURE 7.30 Reducing Labor-Related Expense Percentage

Labor Category	Actions
Fixed	1. Improve productivity. 2. Increase sales volume. 3. Combine jobs to eliminate fixed positions. 4. Reduce wages paid to fixed-payroll employees.
Variable	1. Improve productivity. 2. Schedule appropriately to adjust to changes in sales volume. 3. Combine jobs to eliminate variable positions. 4. Reduce wages paid to variable employees.

256 Chapter 7 Managing the Cost of Labor**Technology Tools**

As labor costs continue to increase, and as labor cost management becomes increasingly important to the profitability of restaurateurs, the tools available to manage these costs have significantly improved and increased as well.

Current software programs enable you to manage and control labor costs by helping you perform the following tasks:

1. Maintain employment records, such as:
 - a. Required employment documents (e.g., applications, I-9s, W-2s)
 - b. Tax data
 - c. Pay rates
 - d. Earned vacation or other leave time
 - e. Subcategories of labor data
 - f. Benefits eligibility
 - g. Training records
2. Conduct and record the results of online or computer-based training programs.
3. Compute voluntary and involuntary employee turnover rates by department.
4. Track employee days lost due to injury or accident.
5. Maintain employee availability records (requested days off, vacation, or mandated leave).
6. Develop employee schedules and interface employee schedules with time-clock systems.
7. Monitor overtime wages costs.
8. Maintain job descriptions and job specifications.
9. Develop and maintain daily, weekly, and monthly productivity reports, including:
 - a. Labor cost percentage
 - b. Sales per labor hour
 - c. Labor dollars per guest served
 - d. Guests served per labor dollar
 - e. Guests served per labor hour
 - f. Optimal labor costs based on actual sales achieved
10. Interface employee scheduling software with forecasted sales volume software in the POS system.

FUN ON THE WEB!

Innovation in management tools that aid in managing payroll costs is not always aimed toward larger companies. Intuit is a company that produces a popular payroll program for smaller operators as well as the widely used Quick Books accounting program. To review the payroll program, go to the Intuit website. When you arrive, select “Intuit online payroll.”

Apply What You Have Learned

*T*eddy Fields is the kitchen manager at the Tanron Corporation International Headquarters. The facility he helps manage serves 3,000 employees per day. Teddy very much needs an additional dishwasher. He is now interviewing Wayne, who is an excellent candidate with five years of experience and who is now washing dishes at the nearby Roadway restaurant.

Teddy normally starts his new dishwashers at \$10.00 per hour. Wayne states that he currently makes \$11.25 per hour, a rate that is higher than all but one of Teddy's current dishwashers. Wayne states that he simply will not leave his current job to take a pay cut.

1. Should Teddy offer to hire Wayne at a rate higher than most of his current employees? Why or why not?
2. Assume you answered no to question one above, what would you say to Wayne?
3. Assume you answered yes to question 1 above; what would you say to your current dishwashing employees if in the future Wayne shared his pay information with them?

Key Terms and Concepts

The following are terms and concepts discussed in the chapter that are important for you as a manager. To help you review, please define the terms below.

payroll	preemployment drug testing	guests served per labor dollar
labor expense	negligent hiring	guests served per labor hour
salaried employee	orientation program	revenue per available seat hour (RevPASH)
exempt employee	task training	productivity standard
minimum staff	OJT	franchisor
fixed payroll	on-the-floor	on-call
variable payroll	split-shift	call-in
productivity	employee separation	overtime wages
productivity ratio	voluntary separation	standard labor cost
job description	involuntary separation	empowerment
job specification	labor cost percentage	
employment application	sales per labor hour	
skills test	labor dollars per guest served	
psychological testing		

Test Your Skills

You may download the Excel spreadsheets for the Test Your Skills exercises from the student companion website at www.wiley.com/college/dopson. Complete the exercises by placing your answers in the shaded boxes and answering the questions as indicated.

1. Serrena owns a gourmet coffee shop. In Serrena's operation, payroll costs for hourly employees and salaried employees are calculated separately. Serrena recorded the revenue her operation generated last month as well as the amount she spent for hourly staff and for salaried managers. Calculate Serrena's last month labor cost percentages for her hourly staff and for her salaried employees as well as her total payroll cost and total payroll cost percentage.

	Payroll Last Month	Payroll Percent
Revenue	\$135,000	
Cost of Hourly Staff	29,500	
Cost of Salaried Managers	6,500	
Total Payroll		

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2. Rosa is the manager of a fine-dining Italian restaurant in a large Midwest city. She has experienced high turnover with her hourly employees over the past several months because they say that she isn't paying competitive wages. More employees have threatened to leave if she doesn't give them a raise. She has determined that she can compete with local restaurants if she raises the hourly wage from \$8.00 per hour to \$8.50, a 6.25 percent increase. Rosa is concerned about what this will do to her labor cost percentage. Her current labor cost is 35 percent, and she feels that 38 percent is the highest labor cost ratio she can maintain and still make a profit. Using last month's data, help Rosa calculate the effect of a 6.25 percent increase in wages. Can she give the employees what they want and still make a profit?

Week	Original Cost of Labor	Raise in Dollars	Total Cost of Labor	Sales	Labor Cost %
1	\$10,650			\$27,600	
2	12,075			32,250	
3	10,887			28,650	
4	10,383			37,200	
Total					

3. Jennifer operates Joe Bob's Bar-B-Q Restaurant. She specializes in beef brisket and blackberry cobbler. Her operation is very popular. The following data is taken from her last month's operation. She would like to establish labor standards for the entire year based on last month's figures because she believes that a month represents a good level of both customer service and profitability for her operation. Jennifer has an average guest check of \$12 and an overall average payroll cost of \$8 per hour.
- a. Use Jennifer's last month's operating results to calculate the following productivity standards: labor cost percentage, sales per labor hour, labor dollars per guest served, guests served per labor dollar, and guests served per labor hour. (*Spreadsheet hint:* Use the ROUND function to two decimal places for "Guests Served per Labor Hour" because you will use it in part c.)

Operating Results for Joe Bob's		
Week	Number of Guests Served	Labor Hours Used
1	7,000	4,000
2	7,800	4,120
3	7,500	4,110
4	8,000	4,450
Total	30,300	16,680

Calculate:

Average guest check	\$12
Average wage per hour	\$ 8
Total sales	
Total labor cost	

Productivity Measurement	Productivity Standard
Labor cost percentage	
Sales per labor hour	
Labor dollars per guest served	
Guests served per labor dollar	
Guests served per labor hour	

- b. Jennifer has subdivided her employees into the following categories: meat production, bakery production, salad production, service, sanitation, and management. She wants to develop a sales per labor hour standard for each of her labor categories. She believes this will help her develop future labor budgets based on forecasted sales. Help Jennifer calculate this standard based on her current usage of labor hours.

Labor Category	% of Labor Hours Used	Labor Hours	Sales per Labor Hour
Meat production	25%		
Bakery production	15%		
Salad production	10%		
Service	20%		
Sanitation	20%		
Management	10%		
Total	100%		

- c. Now that Jennifer has calculated her productivity standards, she would like to use them to develop a labor hours budget for each day next week. She has forecasted 8,000 guests, and she wants to use the guests served per labor hour standard that was calculated in part a. Use this information to develop a labor hours budget for Jennifer.

Day	Forecasted Number of Guests Served	Guests Served per Labor Hour Standard	Labor Hours Budget
1	900		
2	925		
3	975		
4	1,200		
5	1,400		
6	1,600		
7	1,000		
Total	8,000		

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4. Mikel owns Mikel's Steak House, a popular dining establishment just outside of town on a busy state highway. Mikel uses labor cost percentage as his productivity measure, but he has been calculating it only once per month. Since his monthly costs have been higher than he expected, Mikel has decided that he needs a daily measure of his labor cost percentage to better control his costs.
- a. Calculate Mikel's daily labor cost percentage using the six-column daily productivity report, which follows.

Six-Column Labor Cost Percentage						
Unit Name: Mikel's Steak House				Date: 3/1–3/7		
Cost of Labor			Sales		Labor Cost %	
Weekday	Today	To Date	Today	To Date	Today	To Date
1	\$ 950		\$ 2,520			
2	1,120		2,610			
3	1,040		2,720			
4	1,100		2,780			
5	1,600		3,530			
6	1,700		4,100			
7	1,300		3,910			
Total						

- b. Mikel wants to keep his labor cost percentage at 37 percent. Given the results of his six-column daily productivity report for the first week of March, will he be able to achieve his labor cost percentage standard if he continues in the same manner for the remainder of the month? If not, what actions can he take to reduce both his fixed and his variable labor-related expenses?
5. Jeffrey operates a high-volume, fine-dining restaurant called the Baroness. His labor productivity ratio of choice is guests served per labor hour. His standards for both servers and bus persons are as follows:

Servers = 10 guests per labor hour

Bus persons = 25 guests per labor hour

On a busy day, Jeffrey projects the following volume in terms of anticipated guests. His projections are made in one-hour blocks. Determine the number of labor hours Jeffrey should schedule for each job classification for each time period.

How often in the night should Jeffrey check his volume forecast to ensure that he achieves his labor productivity standards and, thus, is within budget at the end of the evening? (*Spreadsheet hint:* Format "Server Hours Needed" and "Bus person Hours Needed" to one decimal place.)

Volume/Staff Forecasting for Saturday: The Baroness			
Time	Forecasted Number of Guests Served	Server Hours Needed	Busperson Hours Needed
11:00–12:00	85		
12:00–1:00	175		
1:00–2:00	95		
2:00–3:00	30		
3:00–4:00	25		
4:00–5:00	45		
5:00–6:00	90		
6:00–7:00	125		
7:00–8:00	185		
8:00–9:00	150		
9:00–10:00	90		
10:00–11:00	45		
Total	1,140		

6. Steve is in trouble. He has never been a particularly strong labor cost control person. He likes to think of himself more as a “people person.” His boss, however, believes that Steve must get more serious about controlling labor costs or he will make Steve an unemployed people person! Steve estimates his weekly sales and then submits that figure to his boss, who then assigns Steve a labor budget for the week. Steve’s operating results and budget figures for last month are presented below.
- Compute Steve’s % of Budget figures for both sales and labor cost. Also, fill in the columns for Budget and Labor Cost % per week for the five-week accounting period.

Operating Results: Steve’s Airport Deli								
For Weeks 1–5								
	Sales		Labor Cost			Labor Cost %		
Week	Budget	Actual	% of Budget	Budget	Actual	% of Budget	Budget	Actual
1	\$2,500	\$2,250		\$ 875	\$ 900			
2	1,700	1,610		595	630			
3	4,080	3,650		1,224	1,300			
4	3,100	2,800		1,085	1,100			
5	2,600	2,400		910	980			
Total								

- Do you feel that Steve has significant variations from budget? Why do you think Steve’s boss assigned Steve a lower labor cost percentage goal during week 3? How do you feel about Steve’s overall performance? What would you do if you were Steve’s boss? If you were Steve?

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7. Jordan is the new western regional manager for the Lotus House, an Asian buffet restaurant chain. Her territory consists of 12 stores in four states. Last week, she received the following data from her stores. Compute Jordan's labor cost by store, by state, and for her region.

	Sales	Cost of Labor	Labor Cost%
California			
Store 1	\$ 91,000.00	\$34,500.00	
Store 2	106,500.00	38,750.00	
Store 3	83,500.00	31,500.00	
Total			
Oregon			
Store 1	\$ 36,800.00	\$12,250.00	
Store 2	61,000.00	18,750.00	
Store 3	52,000.00	17,500.00	
Total			
Washington			
Store 1	\$ 47,500.00	\$14,750.00	
Store 2	46,500.00	15,000.00	
Store 3	45,500.00	15,000.00	
Total			
Nevada			
Store 1	\$ 53,000.00	\$17,250.00	
Store 2	56,000.00	18,500.00	
Store 3	55,100.00	17,250.00	
Total			
Region			

Can Jordan compute the average labor cost percentage for her region by summing the labor cost percentages of the four states and dividing by four? Why or why not? How is the overall labor cost percentage for her region computed?

8. Ravi Shah is the food and beverage director at the St. Andrews Golf Course and Conference Center. The facility is a popular place for weddings, and Ravi finds that on many Friday and Saturday nights, the banquet space at St. Andrews is completely booked. That is good news, but Ravi also finds that Allisha, the one full-time (paid \$20.00 per hour) employee he has utilized as a supervisor for the banquet area, is averaging 15 hours overtime per week.

Ravi is considering three alternative courses of action:

1. Maintain the status quo and pay Allisha for 55 hours per week.
2. Create a salaried position, schedule the employee who holds the position 55 hours per week, and pay that individual \$50,000 per year.
3. Split the job into two part-time positions of 30 and 25 hours per week and pay these employees \$22.50 per hour.

Assume the following:

- Overtime is paid at 1.5 times the normally paid rate.
- The operation's benefit package for part-time employees is 20 percent of the wages paid to them.
- The operation's benefit package for full-time employees is 35 percent of the wages paid to them.
- All full-time employees receive two weeks paid vacation per year.

Which of these three courses of action will cost the facility the most money? The least? If you were Ravi, which of these alternatives would you implement? Why?

	Hours Worked	Pay per Hour	Pay per Week	Weeks in a Year	Pay before Benefits	Benefits	Annual Pay with Benefits
Alternative 1							
Total							
Alternative 2							
Alternative 3							
Total							

9. Luis manages Havana, a 150-seat full-service restaurant featuring Cuban and other Caribbean-style menu items. His restaurant is open for dinner from 5:00 to 11:00 p.m. Luis was excited to read, in one of the industry publications to which he subscribes, an article explaining RevPASH. In the past, Luis used labor cost percentage to create his allowable labor cost budget. Luis now wants to calculate RevPASH, as well as continue to use labor cost percentage, to establish his *hourly* allowable labor cost budget. He has created a form (below) to calculate each of these measures.

Luis is a good manager. When his dining room is slower, he encourages his servers to aggressively sell appetizers and desserts to increase his check average. When the restaurant is very busy, he encourages his servers to stress the quick turn of tables to minimize guest wait times and maximize the

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number of guests that can be served. As a result, and based on his historical records, when he serves 100 or fewer guests per hour, the restaurant achieves a \$20.00 per guest check average. When 101–150 guests are served per hour, the check average drops to \$18.00 per guest. When over 150 guests are served per hour, Havana achieves a \$16.00 per guest check average.

Consider Luis's forecast, shown in the following, of the number of guests he will serve this coming Friday night, and then calculate his forecasted RevPASH for each hour he will be open. Next, help him find out how much he can spend for labor for each hour he will be open. Assume Luis's target is a 30 percent labor cost at all times. (*Spreadsheet hint:* Calculate Total Check Average *after* Total Revenue and Total Guests Served have been calculated.)

Havana Forecast for: This FRIDAY Night						
Hour	Available Seats	Guests Served	Check Average	Revenue	RevPASH	Allowable Cost Based on 30% Labor Cost
5–6 P.M.		50				
6–7 P.M.		100				
7–8 P.M.		150				
8–9 P.M.		175				
9–10 P.M.		125				
10–11 P.M.		75				
Total						
% Seats Sold =						

- What percentage of his total seats available does Luis believe he will fill on Friday night? What overall check average does he estimate he will achieve?
 - What would be Luis's forecast for his hourly and overall RevPASH on this day?
 - What would be Luis's labor budget for each hour his restaurant will be open, as well as the total amount that could be spent for labor that night?
 - What are some specific steps Luis might take to improve his RevPASH on Fridays from 5 to 6 P.M.? From 8 to 9 P.M.?
10. In this chapter, you learned about the importance of employee training when seeking to improve worker productivity. The old foodservice adage that "Training doesn't cost—it pays!" is true. With creative thinking, even the cost of acquiring quality-training materials can be made very reasonable. Assume you were the director of foodservices for a school district that included 20 elementary, middle, and high schools. You seek to provide training to the 100 foodservice employees working in your district. Name five specific steps you could take to identify and secure low-cost training materials that could be utilized at a minimum "cost-per-employee" to be trained.