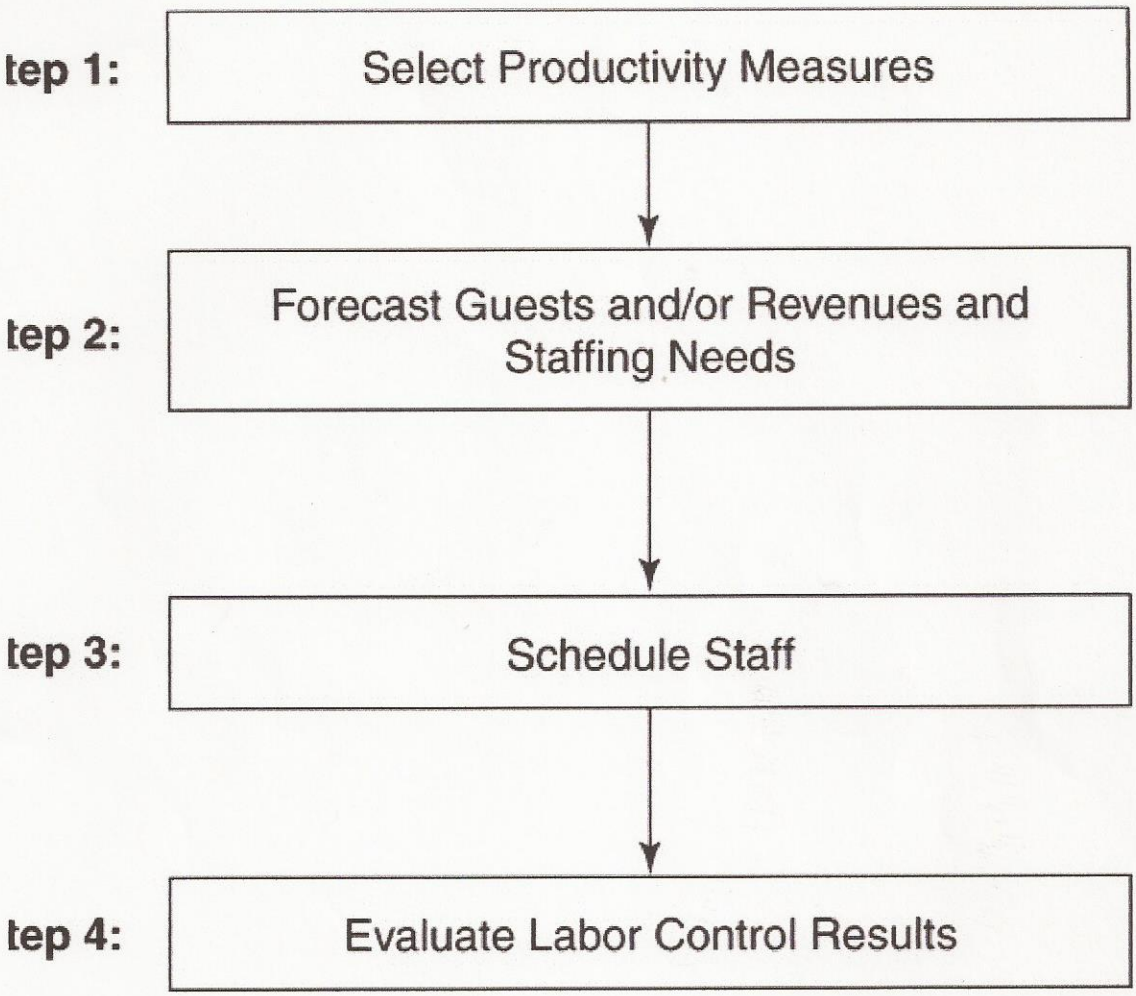
FIGURE 14.1 Four-Step Labor Cost Control System



Four-Step Labor Control System: Overview

The menu, food production tasks that result from decisions about whether to make foods "from scratch" or purchase ready-made (convenience) foods, desired service levels and quality of training programs all impact a restaurant's total labor cost. Managers should use a sequential process to determine how many staff members must be available at some specific time to ensure proper guest service. This process consists of the four basic steps shown in Figure 14.1.

Managers must establish desired labor costs. To do so, you should select from a variety of labor productivity measures (Step 1). Next, forecast guests and/or revenues and the number of production/service staff required to do so (in Step 2). Employee schedules are then developed (Step 3). Finally, evaluate results to adjust scheduling procedures as necessary (Step 4). We will examine each of these steps in the following sections of this chapter.

MANAGERS AT WORK

"It was just awful," said Mrs. Kline. She was talking to Carlos Valdez, the owner and manager of the Five Pesos Mexican Cantina restaurant.

"I came here last week, and everything was wonderful," Mrs. Kline continued. "Then I made dinner reservations for myself and four of my friends for tonight, and everything went wrong! It took us forty minutes to get a table, even though I could see lots of empty tables in the dining room. When we finally got seated, it took fifteen minutes to place our drink order, and even then the waitress seemed rushed and unfriendly!"

I'm sorry," said Carlos.

"That's not all," replied Mrs. Kline. "It took a long time to get our food and longer to get our dinner check after we finished!"

"We had a big rush, and my servers were busy," explained Carlos. "I'm sorry we didn't serve you in the same efficient way we usually do."

As a manager of a restaurant, what will happen to your operation if too few staff members are available to serve your guests? Having too many servers available causes excessive labor costs; however, what are the hidden costs of having too few servers?

If you were Carlos, what would you do about the situation with Mrs. Kline and what could you do to reduce the potential for this problem in the future?

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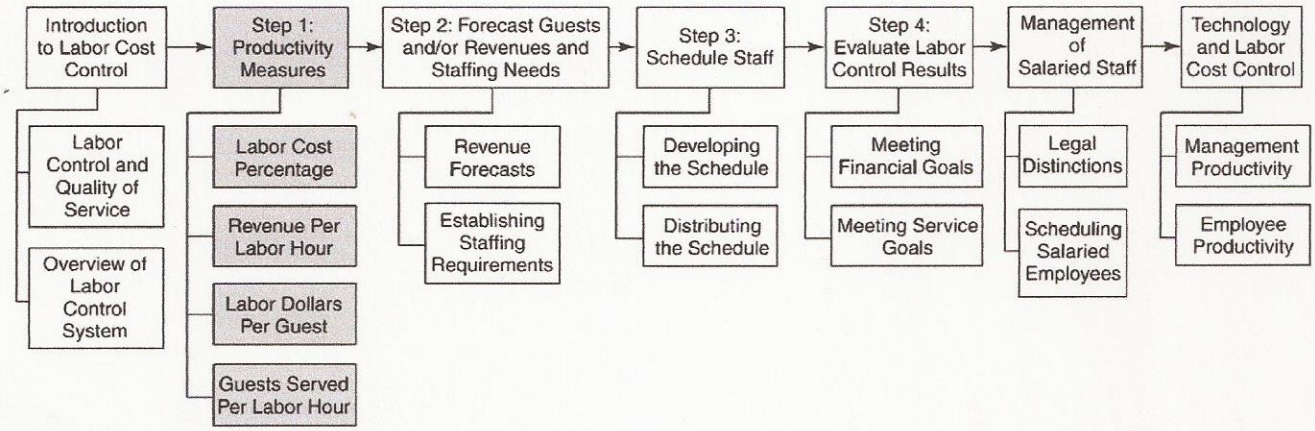
FLOWCHART 14.3



STEP 1: SELECT PRODUCTIVITY MEASURES

Restaurant managers measure productivity because they want to compare labor goals with actual results. To do so, the goal must be well-defined and appropriate for your operation. See Flowchart 14.3.

For example, assume that LaToya, a restaurant manager, wishes to evaluate the productivity of a cook. She knows from experience that a well-trained, motivated cook in her restaurant can produce 25 quality meals per hour. A cook who prepares only 15 meals per hour will not meet her expectations.* If she is aware of the cook's current productivity level, corrective action can be undertaken. This could be as simple as assuring that the cook has the necessary tools and supplies, or it may mean extensive retraining. Unless LaToya first identifies the expected performance level and then compares actual worker performance to those expectations, productivity will remain unknown and unimproved.

The first step in establishing productivity standards is to select the proper measure of productivity. Historically, restaurant managers have used several measurements including:

- Labor cost percentage
- Revenue per labor hour
- Labor dollars per guest
- Guests served per labor hour

Labor Cost Percentage

Restaurant managers who use **labor cost percentages** as their standard of productivity are interested in the revenue dollars generated compared to the labor-related dollars spent to generate that revenue. The ratio between these two numbers is called the labor cost percentage and is expressed as:

$$\frac{\text{Cost of Labor}}{\text{Revenue}} = \text{Labor Cost \%}$$

*The meals per labor hour standard cited here is used only for an example. Managers must establish their own labor hour standard based upon factors that are specific to their property.

RESTAURANT TERMINOLOGY AT WORK

Labor Cost Percentage: The ratio of labor costs incurred in a defined accounting period relative to the revenue dollars generated in that same accounting period. It is computed as:

Cost of Labor ÷ Revenue

For example, assume LaToya's restaurant generates $1,000,000 per year in revenue and incurs, in that year, $350,000 in labor costs. The labor cost percentage is computed as:

$$\frac{\$350,000}{\$1,000,000} = 35\%$$

In other words, of all the revenue generated ($1,000,000), 35 percent ($350,000) is used for labor.

Managers who use a labor cost percentage to measure productivity do so because it is relatively easy to compute. It is also one of the most popular labor productivity measures used in the restaurant industry.

When one computes a labor cost percentage, there are a variety of ways to define labor costs. Some managers consider **payroll** dollars in their labor cost equation.

RESTAURANT TERMINOLOGY AT WORK

Payroll: The total wages and salaries exclusive of fringe benefits paid to employees.

Payroll generally means the total salaries and wages paid to employees. The cost of labor, however, consists of much more than just payroll. It includes salaries and wages, but it also includes all other labor-related fringe benefit costs such as:

- FICA (Social Security taxes)
- Unemployment and workers' compensation taxes
- Employee health, dental, and/or vision insurance premiums paid by the employer
- Vacation/sick leave/personal days/holidays
- Employee meals
- Employee training expenses
- Pension contributions
- Other taxes and benefits

There may be other expenses which comprise the restaurant's total labor-related costs, and managers should include *all* related costs when calculating their total **cost of labor**.

RESTAURANT TERMINOLOGY AT WORK

Cost of Labor: Total compensation including salaries, wages, fringe benefits, and all other employee-related expenses required in support of the hospitality operation.

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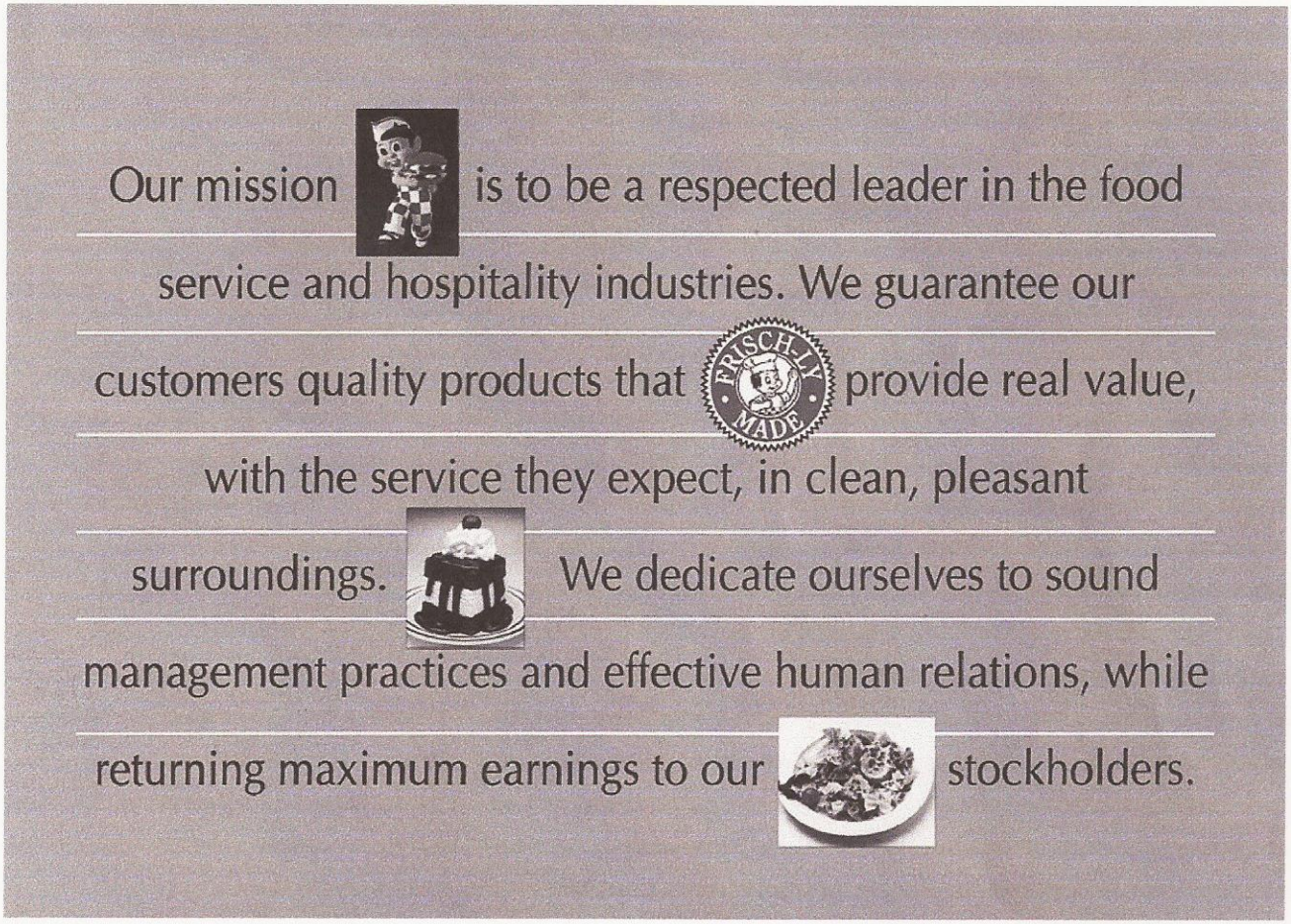

Frisch's restaurant Mission Statement includes a commitment to its employees as well as to its customers and stockholders

There is no universally accepted "best" or "target" labor cost percentage. Depending upon the type of restaurant, an ideal labor cost percentage can range from 20 to 30 percent (or even more) of restaurant revenue.

Use of the labor cost percentage to control labor costs is useful because this ratio is a widely used labor productivity measure and is often used to help gauge the manager's overall effectiveness. Managers in similar types of restaurants in the same market with the same (or similar) labor rates who attain lower labor cost percentages are typically perceived to be more effective because fewer revenue dollars are spent on labor than in their counterpart properties with higher labor cost percentages.

When meal periods are evaluated, managers want to know labor productivity ratios for breakfast, lunch, dinner or other time period. To illustrate, consider LaToya's property. She computes labor cost

percentages for the two meal periods her restaurant is open. Figure 14.2 shows applicable data for one week.

Note that LaToya experiences different productivity ratios for both meal shifts. Note also that the consolidated figure (38.2 percent in this case) could be misleading. It is much better to schedule and evaluate lunch and dinner staffing patterns separately to control labor costs.

IT'S A FACT

According to the National Restaurant Association (NRA), the labor cost (total payroll and benefits) percentage for a full-service restaurant (check average per person of $25.00 and over) was 30.3% in 2002.

Source: National Restaurant Association and Deloitte & Touche. 2003 Restaurant Industry Operations Report. Washington, D.C. National Restaurant Association 2003. (page 76)

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FIGURE 14.2 LaToya's Lunch and Dinner Labor Cost Percentages

Meal Period	Cost of Labor	Revenue	Labor Cost %
Lunch	$2,500.00	$5,000.00	50.0%
Dinner	$4,000.00	$12,000.00	33.3%
Total	$6,500.00	$17,000.00	38.2%

Similarly, some managers compute labor cost percentages based on day of the week; for example, revenue may vary greatly between weekday and weekend productivity ratios.

While lower labor cost percentages are generally more desirable than higher ones, there are three important points to remember if a labor cost percentage is the primary measure of labor productivity:

- *Consistently use the same types of labor cost information when computing/comparing your labor cost percentage.* As noted above, the total cost of labor includes both payroll and all other labor-related costs. Some managers may elect, however, to include only payroll rather total labor costs because numbers are easy to calculate: the sum of the wages and salaries paid during a payroll period. Alternatively, some managers include and others exclude management labor costs when computing their labor cost percentage. The most important point to remember is to consistently compute a labor cost percentage in a way that is sensible for your operation.

  To compare your property's labor cost percentage to a similar restaurant, assure that both units use the same data for comparison. If you do not, comparisons will not accurately reflect true differences in your productivity measure. As well, if you compare your labor cost percentage to one computed in your restaurant last week, last month or last year, it is critical that the "definition" of labor costs remain constant between time periods.

- *Realize that labor cost percentages are affected by changes in wage rates.* Labor cost percentages vary with changes in labor rates. When the price paid for labor increases, and there is no change in revenue, the labor cost percentage increases. When the price paid for labor decreases, the labor cost percentage decreases. Assume that, in our previous labor cost percentage example (labor costs were $350,000; revenues were $1,000,000), LaToya decides to grant all employees a 3 percent pay increase. In that case, the new cost of labor would be computed as:

- $350,000 × .03 = $10,500 (Labor cost increase)
- $350,000 + $10,500 = $360,500 (Total labor cost)
- $360,500/$1,000,000 = 36% (Labor cost percentage)

In this case, LaToya's labor cost percentage increased from 35 to 36 percent.

Her labor costs increased, but there was no offset in increased revenue.

- *Recognize that labor cost percentages are affected by changes in menu selling prices and in total revenues generated.* When selling prices (and, therefore, revenues) increase but there is no change in labor costs, the labor cost percentage decreases. (The reverse is also true: if menu prices are reduced and revenues decline, the labor cost percentage will increase.)

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Assume that LaToya raises all menu prices by 5 percent on the first day of a new accounting period and that this does not reduce restaurant revenue. The labor cost percent would be computed as:

- $ 1,000,000 × .05 = $ 50,000 increase in revenue
- $1,000,000 + $50,000 = $ 1,050,000 total revenue
- $350,000/$1,050,000 = 33.3% Labor cost percentage

In this case, the labor cost percentage decreased from 35 to 33.3 percent. In reality, the only reason for the increase in the labor cost percentage is increased menu prices.

While the labor cost percentage is popular and easy to compute, it must be used carefully because its computation depends on the labor dollars spent and on revenue dollars received. It cannot be used for comparison between labor markets with significantly different labor rates. Over time, wages do increase, and menu prices must be adjusted. Both of these changes affect the labor cost percentage but do not really affect productivity. These limitations encourage some managers to use alternative measures of labor productivity.

Revenue per Labor Hour

One of the most perishable commodities purchased by every restaurant manager is labor hours. When not used effectively, they disappear forever. Therefore, each labor hour purchased must be carefully utilized to help maximize restaurant revenues generated from it. Some restaurant managers measure labor productivity in terms of the amount of revenue generated for each labor hour used. They do so because they believe it is a better assessment of labor efficiency in their operations than is the labor cost percentage. The formula for computing this productivity measure is:

$$\frac{\text{Total Revenue}}{\text{Total Labor Hours Used}} = \text{Revenue per Labor Hour}$$

RESTAURANT TERMINOLOGY AT WORK

Revenue per Labor Hour: A measure of labor productivity computed as:

Total Revenue ÷ Total Labor Hours Used

To compute revenues per labor hour, managers identify the total revenue generated and the number of labor hours used to generate the revenue during a specific period of time (hour, shift or day, for example). All labor hours used are included in the measurement. Like the labor cost percentage, revenue per labor

hour is affected by changes in menu selling prices and total revenues. Unlike the labor cost percentage, however, it will not vary based on changes in labor costs.

Each measure of labor productivity has its limitations, and the revenue per labor hour measure is no exception. Consider two managers whose operations use the same number of labor hours and generate the same amount of revenue. One manager pays employees an average hourly rate of $10.00. The other manager pays em ployees an average of $9.00 per hour. They would both operate with an identical

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manager pays employees an average of $9.00 per hour. They would both operate with an identical revenue per labor hour measure.

Despite this limitation, the revenue per labor hour measurement is very useful in some situations. For example, assume your restaurant operates a bar. You must staff the bar with extra bartenders on busy Friday and Saturday nights. Use of too few bartenders will result in revenue loss and guest complaints because of slow service. Too many bartenders create excessive labor costs. In this situation, knowledge of the revenue generated per bartender labor hour can help maximize guest service and operational efficiency.

Revenue per labor hour is easy to compute because revenues are routinely monitored, and labor hours used are readily identified from payroll records. As with the labor cost percentage, you must be consistent when determining the number of labor hours used. If, for example, hours of employees paid a **salary** are included in the productivity computation during one period, they should be included each time the computation is made.

RESTAURANT TERMINOLOGY AT WORK

Salary: Pay calculated at a weekly, monthly or annual rate rather than at an hourly rate.

Labor Dollars per Guest

Some restaurant managers evaluate productivity by examining the ratio between the number of labor dollars they spend and the number of guests they serve (**labor dollars per guest**). They understand that changes in menu prices affect the labor cost percentage and, therefore, prefer a labor measure that is unaffected by menu price charges.

RESTAURANT TERMINOLOGY AT WORK

Labor Dollars per Guest: A measure of labor productivity that does not vary based on menu prices computed as:

Total Labor Dollars ÷ Number Guests Served

This productivity measure is relatively easy to compute and, when the number of guests served stays fairly constant, this ratio can effectively measure productivity. In addition, it is easy to compute because the number of guests served is typically recorded daily, and payroll amounts are recorded each time employees are paid. While this measure of productivity is both popular and useful, remember that it varies based on the price paid for labor.

Guests Served per Labor Hour

The ratio of the number of guests served in a restaurant to the number of labor hours required to serve them is another measure of productivity and is referred to as guests served per labor hour.

A restaurant manager who served 1,000 guests on a busy night and who required 250 labor hours to do so would have a guests served per labor hour ratio of:

$$\frac{1{,}000 \text{ guests served}}{250 \text{ labor hours used}} = 4 \text{ Guests Served per Labor Hour}$$

The ratio of guests served per labor hour likely varies greatly between departments in the restaurant. Many managers recognize this and calculate a specific ratio for each department. This ratio is not affected by labor costs, by changes in menu selling prices or by total revenue dollars generated. As a result, it is perhaps, when properly utilized, the purest productivity measure. The number of guests served per labor hour ratio is very useful because it measures productivity gains (or losses) across time due to changes unrelated to menu prices or the price paid for labor.

As with all measures of productivity, there are, however, limitations to its use. To illustrate, assume that a restaurant manager operated a property with a dining room and bar. The workforce consists of servers, bartenders, cooks and dishwashers. To evaluate the productivity of each work group, the manager should compute a separate Guests Served per Labor Hour ratio for each functional work area. The complete analysis of labor would be as follows (assume 1,000 guests served):

Functional Area	Labor Hours	Computation	Productivity Ratio
Servers	100	1,000 ÷ 100	10 guests per hour
Bartenders	40	1,000 ÷ 40	25 guests per hour
Cooks	80	1,000 ÷ 80	12.5 guests per hour
Dishwashers	30	1,000 ÷ 30	33.3 guests per hour
Total Hours	**250**		

$$\text{Total Productivity for Restaurant} = \frac{1000 \text{ Guests}}{250 \text{ Hours}} = 4 \text{ Guests/Hour}$$

Note that the productivity of each functional area varies widely. This is not a concern, however, because the manager will schedule employees for each functional area separately. For example, if 1,600 guests are anticipated on a busy night, the number of server hours to be scheduled will be approximately 160 (1,600 guests ÷ 10 guests per server hour). By contrast, the number of dishwasher hours to be scheduled would be approximately 48 (1,600 guests/33.3).

Since managers and supervisors constitute a significant labor expense, some managers create a management category and compute a separate Guests Served per Labor Hour measurement for these individuals. Note: Typically, labor productivity measurements are computed for a common accounting period such as week, biweekly or month; however, some managers compute these ratios based on meal periods or days of the week. These calculations are relatively easy to make when automated systems that sum labor hours by any position category and for any time period are in use.

Review of Alternate Productivity Measures

As seen in Figure 14.3, no approach to measuring worker productivity is perfect. For most restaurant managers, the labor cost percentage is the measure most commonly used. The best comparisons involve

internal reviews that measure labor costs and/or productivity between time periods and/or departments within the same property. Therefore, its computation and an understanding of its use and limitations are important. Effective managers often use it in combination with at least one other labor ratio. Note: we will use the labor cost percentage as the productivity ratio to illustrate the remaining concepts in the chapter.

FIGURE 14.3 Productivity Measurement Comparison

Measure of Productivity (Ratio)	Advantage	Disadvantage
Labor Cost Percentage	Most widely used	Varies with the price paid for labor, changes in menu selling prices and total revenues
Revenue per Labor Hour	Easy to compute	Varies with changes in menu selling prices and total revenues
Labor Dollars per Guest Served	Easy to compute	Varies with changes in labor costs
Guests Served per Labor Hour	Does not vary with changes in menu selling prices, total revenues or labor costs	Most useful only if computed by functional area

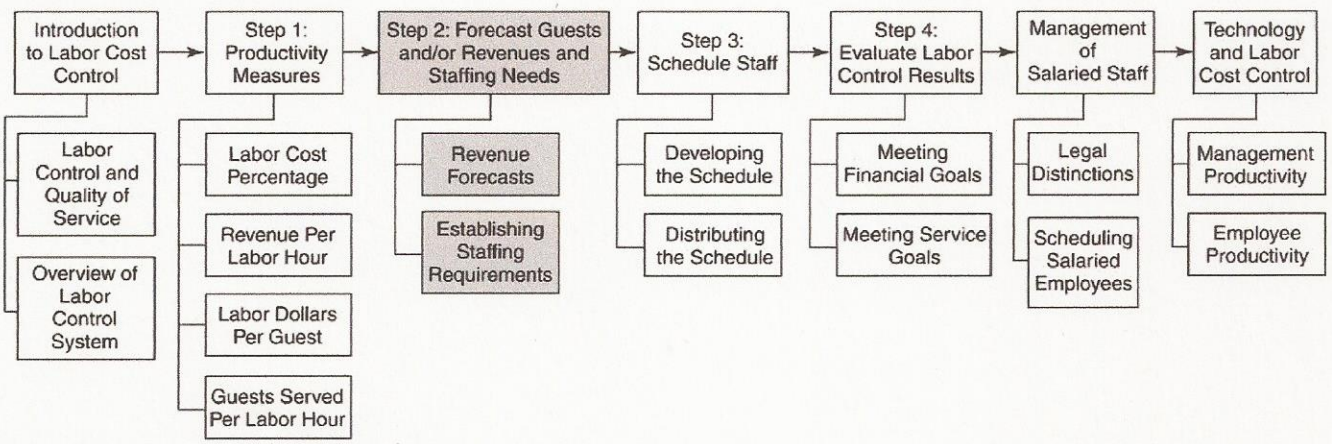
STEP 2: FORECAST GUESTS AND/OR REVENUES AND STAFFING NEEDS

Knowing how much you can spend for labor and how many guests your workforce can effectively handle is important. It is equally necessary to know how many guests you anticipate serving and/or the dollars of revenue expected to be generated. Whether the restaurant serves dozens or thousands of guests per day, it is critical to **forecast** the number of employees (or labor hours) and the number of guests or (revenue dollars) as employees are scheduled. See Flowchart 14.4. These schedules can be developed on a by-shift and/or by-day basis.

RESTAURANT TERMINOLOGY AT WORK

Forecast (Labor Cost Control): An estimate of the number of guests to be served and/or the revenue to be generated and the number of employees (or labor hours) needed for a specific meal period or day.

FLOWCHART 14.4



A forecast can estimate the number of guests to be served, the dollars (revenue) anticipated, and/or even the number of each menu item to be sold. Regardless of the approach selected, the forecast must include information that allows you to identify the number of workers or labor hours needed. Doing so allows the manager to create a cost-effective employee schedule.

Revenue Forecasts

Learning to make accurate revenue forecasts is one of the most critical management skills you can acquire. The importance of an accurate revenue forecast to a manager can be illustrated by answering the following question: *"Would you like to know exactly how many guests you will serve next week and when they will be arriving?"*

If you knew, you could have the right number of employees available at the right times to serve your guests. The more you know about your guests' dining plans, the better able you are to create an effective employee schedule.

You cannot, of course, predict exact business volumes for a future period. You can, however, do the next best thing: realistically predict the future. When you have done that you have prepared a revenue forecast. Managers who do not forecast revenue and/or number of guests may not have realistic future expectations and may be unable to effectively schedule employees.

The task of forecasting revenue becomes easier, however, as you know more about the tools available to do so. These include examining the past, present, and future.

Historical Data

What has happened in the past is one of the best indicators of what is likely to happen in the future. The further back you can track historical revenues or guest levels, the better your future forecasts will be. For example, if you know the revenue volumes for the past fifty Fridays, you are likely to be better able to forecast this coming Friday's business than if you have only data for the last five Fridays available. The lesson here is to track revenues, record them accurately and refer to them regularly when building revenue forecasts. Some of the types of historical data that managers have found valuable in forecasting future revenue include:

- Prior day's sales
- Average achieved sales for the prior four *same* days (for example, Sundays or Tuesdays)
- Prior week's average daily sales
- Prior two weeks' average daily sales
- Prior month's average daily sales
- Actual sales on the same day (prior year)
- Average actual sales on the same day (prior two or more years)

- Average actual daily sales in the same month (one or more prior years)

Current Conditions

Historical data should always be considered in conjunction with the most recent data available. Assume for example, a restaurant manager knows that revenues have, on an annual average, increased 5 percent each month from the same period last year. However, in the last two months, the increase has been 470 471

each month from the same period last year. However, in the last two months, the increase has been closer to zero. This may mean that the increase trend has slowed or stopped completely. Good managers always modify historical trends by closely examining current conditions.

Future Conditions

Evaluating future conditions is necessary to estimate the impact on revenue from future events. Examples include the opening of new competitive restaurants, special scheduled occurrences including sporting events and concerts, or significant changes in your own operating hours resulting from these events. Local newspapers, trade or business associations, and your chamber of commerce are possible sources of helpful information.

When all available information has been considered, you are ready to estimate future revenues. This estimate, in combination with the labor measurements you have already established, will allow you to build your employee schedule.

Establishing Staffing Requirements

Assume LaToya has estimated the revenue for the coming week as shown in Figure 14.4.

Note in Figure 14.4, that LaToya anticipates generating $50,000 in revenue for the coming week. Assume that she knows, from evaluating past applicable productivity ratios, that she can allocate a total of 30 percent of anticipated food revenue for labor costs and 25 percent of anticipated beverage revenues for applicable labor costs, and that she is satisfied with the level of service she can provide her guests using these ratios.

With a forecast of $36,850 in food revenue, LaToya can spend $11,055 in weekly labor costs ($36,850 × .30 = $11,055) to generate the food revenues, and $3,287.50 ($13,150 × .25 = $3,287.50) in labor to generate beverage revenues. Before she can develop her actual employee schedule, however, there are several important facts to consider.

FIGURE 14.4 LaToya's Restaurant: Weekly Revenue Forecast

Day	Food Revenues	Beverage Revenues	Total Revenues
Monday	$ 3,000	$ 1,000	$ 4,000
Tuesday	$ 2,500	$ 800	$ 3,300
Wednesday	$ 3,500	$ 1,100	$ 4,600
Thursday	$ 5,500	$ 700	$ 6,200
Friday	$ 8,500	$ 4,000	$12,500
Saturday	$ 9,000	$ 4,800	$13,800
Sunday	$ 4,850	$ 750	$ 5,600
Total	**$36,850**	**$ 13,150**	**$50,000**

First, labor costs are not a true variable cost as are food and beverage costs because they do not maintain a fixed relationship to revenue levels. For example, assume a 30 percent labor cost is ideal for LaToya's restaurant during an accounting period with $100,000 in anticipated revenue. Assume also that she staffs for that revenue level, but revenue actually exceeds $100,000. Then, the actual labor cost percentage will

be lower than 30 percent because the fixed labor component (that paid for salaried staff) will be spread over a larger revenue base.

If revenue levels exceed LaToya's estimates, she still may not need more employees since some employee categories are not directly affected by the number of revenue dollars generated or guests served. For example, one salaried manager can be responsible for LaToya's dining area when $100,000 in revenue is generated; that same manager, with no increase in labor cost, can probably also manage her dining room when $120,000 in revenue is generated. Similarly, one bartender may to able to prepare and serve guests spending $100 for beverages per hour or $150 for beverages in the same hour. Of course, when significant increases in revenues are planned, LaToya will need to increase the hours for some categories of employees including service staff, bussers, dishwashers, bartenders and, perhaps, cooks.

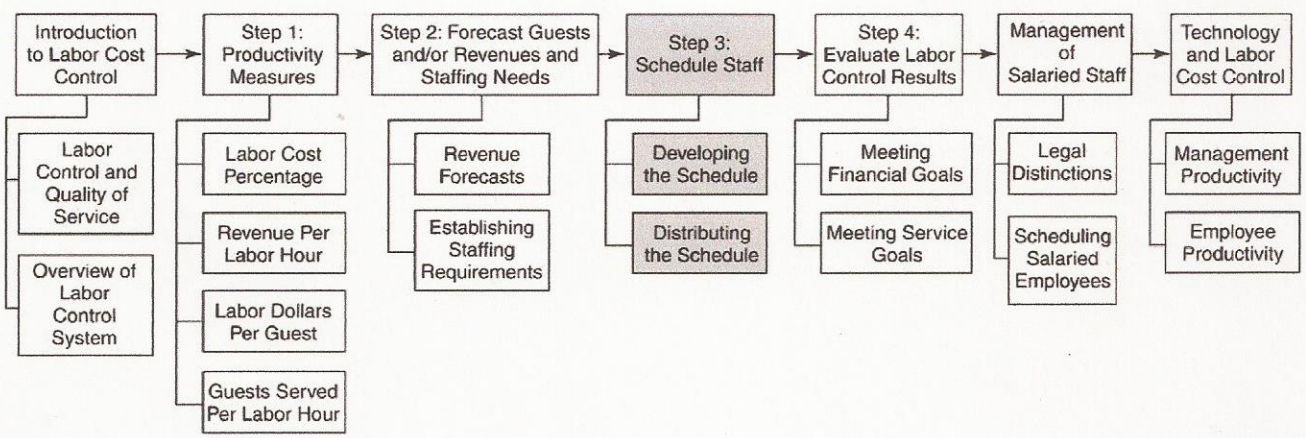
Employee schedules should be developed using a foundation of labor dollars which can then be converted to a labor cost percentage. The labor dollars committed when an employee schedule is built must be sufficient to adequately serve the anticipated number of guests. To create the appropriate percentage amounts, the payroll forecast should be separated, at minimum, into **fixed labor** (management and some employees) and **variable labor** categories. Each should be forecast independently.

RESTAURANT TERMINOLOGY AT WORK

Fixed Labor: The amount of labor and associated costs required for the hospitality operation whenever it is open regardless of business volume.

Variable Labor: The amount of labor and associated costs required to service guests above the maximum number serviced by fixed labor. As revenue increases, variable labor costs also increase.

FLOWCHART 14.5



The proper amount of variable labor hours and costs to be scheduled is determined by evaluating previously computed productivity measures. These figures will change as revenue levels change. Costs for fixed labor, however, will remain constant regardless of the revenue level and/or the number of hours of fixed labor personnel used. Flowchart 14.5 introduces this next step in the process to control labor costs.

STEP 3: SCHEDULE STAFF

Armed with measures of desired and anticipated productivity and accurate guest and/or revenue forecasts, you can now develop the employee schedule. How well this task is done determines, in large measure:

- The quality of products and services provided to guests
- The employees' level of job satisfaction
- The restaurant's profitability
- The perception that the manager's own boss has of his/her ability to manage effectively.

The process of scheduling staff has come a long way in the past twenty years. Today, managers can choose from a variety of software tools to actually create employee schedules. The advantages of using these programs are many and include the ability to preload important employee data such as requested days off, pre-arranged vacations, maximum allowable hours to be worked, restrictions on when those hours can be worked (for minors), employee time preferences, and numerous additional factors identified by management. While the manner in which the schedule is presented/distributed to staff will vary according to the individual needs of the restaurant, effective employee schedules should clearly indicate, at minimum:

- The dates covered by the schedule
- The day of the week covered by the schedule
- Employee first and last names
- Scheduled days to work
- Scheduled days off
- Scheduled start time (designate A.M/P.M.)
- Scheduled stop time (designate A.M/P.M.)
- Total schedule period hours to be worked (exclude scheduled meal periods from totals)
- Requested vacation or personal days off
- On/off days for salaried personnel
- The date the schedule was prepared
- The individual who has prepared/approved the schedule

Figure 14.5 is an example of an Excel spreadsheet work schedule a manager might create for a week that has heavy forecasted demand on Friday and Saturday nights. At this restaurant, employees are given a one-half hour meal break that is built into their scheduled hours. Note that this schedule includes all of the twelve items of information required for effective schedules and includes four departments.

Developing the Schedule

Regardless of whether you develop the employee schedule manually or use available software, there are several principles which should be used. Figure 14.6 lists some of these.

Let's look at each of these principles more clearly.

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FIGURE 14.5 Sample Employee Schedule

ANYTOWN STEAK HOUSE

From 1-Oct thru 7-Oct

Area/Employee		Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Total
		10/1	10/2	10/3	10/4	10/5	10/6	10/7	Hours
Dining Room									
Janet F.		7:00a-2:00p	OFF	7:00a-1:00p	OFF	7:00a-1:00p	1:00p-8:30p	7:00a-1:00p	32.5
Sarah H.		OFF	7:00a-1:00p	1:00p-8:30p	7:00a-1:00p	1:00p-8:30p	7:00a-1:00p	OFF	33.0
Bill C.		7:00a-2:00p	OFF	7:00a-1:00p	OFF	7:00a-1:00p	1:00p-8:30p	7:00a-1:00p	32.5
Mike C.		2:00p-9:00p	7:00a-1:00p	OFF	7:00a-1:00p	1:00p-8:30p	7:00a-1:00p	OFF	32.5
Talisha C.		2:00p-9:00p	1:00p-8:30p	1:00p-8:30p	1:00p-8:30p	OFF	OFF	OFF	29.5
Ray S.		OFF	OFF	OFF	OFF	1:00p-8:30p	1:00p-8:30p	Vacation	15.0
Kylie M.		OFF	1:00p-8:30p	OFF	1:00p-8:30p	1:00p-8:30p	1:00p-8:30p	1:00p-8:30p	37.5
Kitchen									
Lorenzo T.		OFF	6:00a-2:30p	6:00a-2:30p	6:00a-2:30p	1:00p-9:00p	1:00p-7:00p	OFF	39.5
Ron C.		6:00a-2:00p	OFF	OFF	OFF	6:00a-2:00p	6:00a-2:00p	6:00a-2:00p	33.5
Arthur A.		12:30p-8:00p	1:00p-9:00p	OFF	OFF	11:30a-8:00p	11:30a-8:00p	1:00p-8:30p	40.0
Shanna A.		OFF	OFF	1:00p-9:00p	1:00p-9:00p	OFF	OFF	OFF	16.0
Dishroom									
George G.		12:00p-4:30p	OFF	OFF	11:00a-4:00p	11:00a-4:00p	11:00a-4:00p	11:00a-4:00p	24.5
Janna A.		OFF	11:00a-4:00p	11:00a-4:00p	OFF	5:00p-10:30p	5:00p-10:30p	OFF	21.0
Bob D.		6:00p-11:00p	5:00p-10:30p	5:00p-10:30p	OFF		5:00p-10:30p	5:00p-10:30p	27.0
Cindy T.		OFF	OFF	OFF	OFF	5:00p-10:30p	OFF	OFF	5.5
Manager									
Reesie D.		On	On	On	On	On	On	OFF	6 Days
Sam V.		On	On	OFF	OFF	On	On	OFF	4 Days
Herman Z.		OFF	OFF	On	On	On	On	On	5 Days
Prepared	9/26		**Approved By**						

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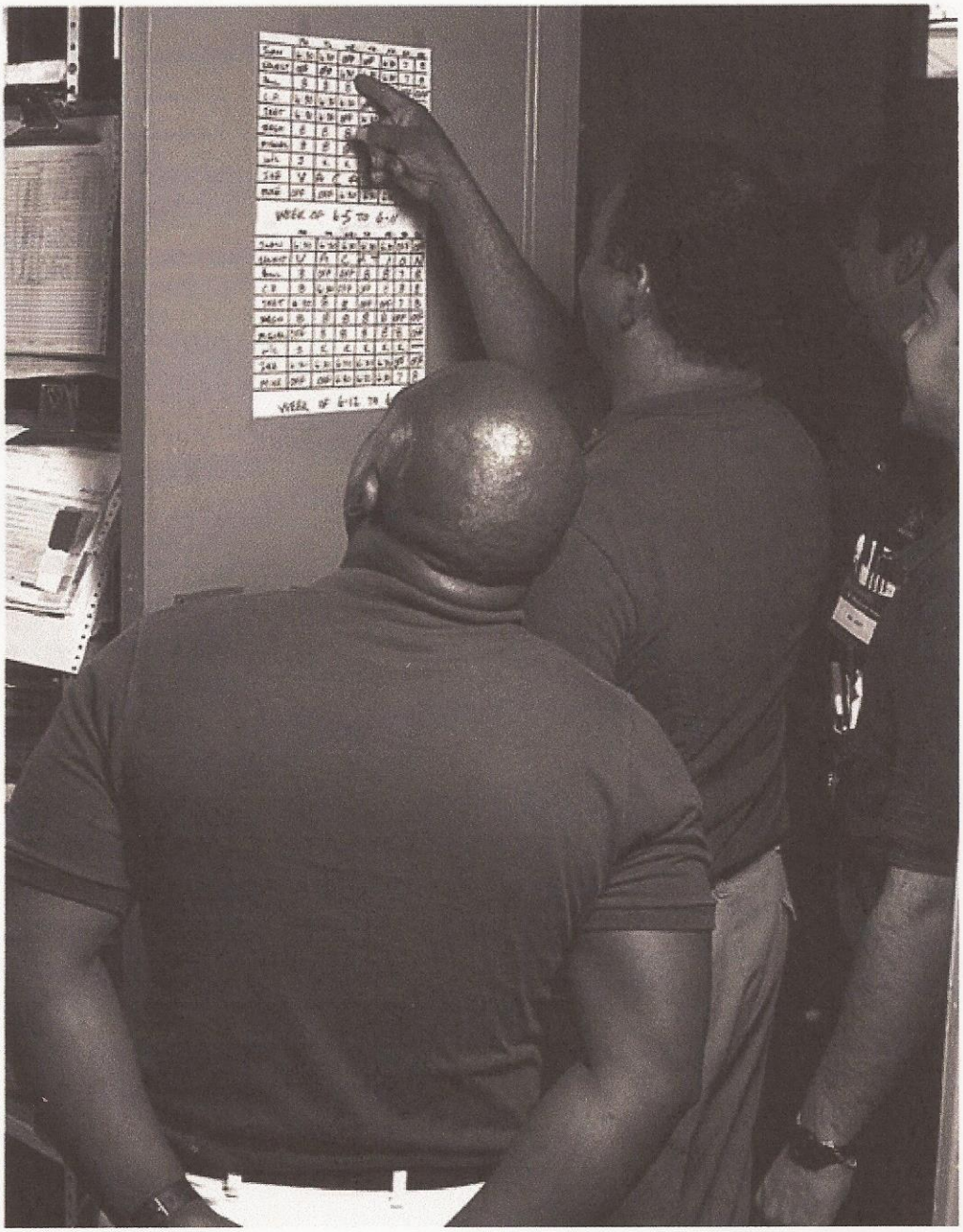

Schedules must be perceived to be fair by employees

- *Begin with Forecasted Revenue.* As you have seen, you must know the amount of business expected when staff are scheduled. Regardless of the scheduling system used, begin with an accurate forecast of anticipated business volume (number of guests served or revenue dollars to be generated).
- *Develop a Productivity Target and Schedule to Meet It.* Always have your target productivity measurement in mind as you build the schedule. For example, if the measurement is a labor cost percentage, compute the anticipated percentage you would achieve with that schedule. Remember that this forecasted labor percentage will, in fact, be your actual labor cost percent if you attain the forecasted revenue volume.

- *Schedule for the Needs of Guests First and Employees Second.* Typically, employees have strong feelings about when they want to work and for how long. A manager's job is to ensure that employees are available when they are needed and not just when employees "prefer" to work. Never let the restaurant be under-or inappropriately staffed because of employee preferences.

FIGURE 14.6 Employee Scheduling Principles

1. Begin with forecasted revenue and/or estimated number of guests.
2. Develop a productivity target and schedule to meet it.
3. Schedule for the needs of guests first and of employees second.
4. Avoid scheduling overtime whenever possible.
5. Utilize part-time employees for peak-volume periods.
6. Minimize split-shifts.
7. Consider and grant employee schedule requests whenever possible.
8. Be fair when scheduling preferred time periods.
9. Comply with all applicable laws and company policies.
10. Communicate scheduling decisions in a timely manner.

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- *Avoid Scheduling Overtime Whenever Possible.* Overtime pay is expensive and is responsible for a large portion of payroll costs in many restaurants. Remember that, for productivity measurements using labor hours, overtime labor hours increase total payroll costs but do not affect the productivity measurement. In most restaurants, some overtime may be unavoidable as scheduled employees are absent from work, which requires employees on duty to work additional hours, revenue volume levels unexpectedly increase, and/or as extra work must be completed. In all cases, however, an employee schedule should not be developed with "built-in" overtime. If it does, this almost always indicates that the manager has failed to develop an effective staff with enough flexibility to address normal fluctuations in business operations.

- *Utilize Part-time Employees for Peak Volume Periods.* In most restaurants, increases in volume occur during traditional meal periods. For example, the hours between 6:00 A.M. and 9:00 A.M. may be busy for a restaurant serving breakfast; 11:00 A.M. to 1:00 P.M. may be busiest for a restaurant serving lunch; 6:00 P.M. to 9:00 P.M. (or later) may be the busiest for a dinner shift. As a result of peak volume periods, additional staff, particularly in guest service positions, may be needed. Historically, restaurant managers have augmented their staffs during these periods with part-time employees. This is a sound idea for most managers; however, remember that the total number of hours worked is important for many employees seeking to meet their personal financial goals. Good managers are sensitive to this, and they hire only as many part-time employees as can be reasonably assured sufficient hours to make their part-time jobs desirable.

- *Minimize Split-Shifts.* Some managers address meal period fluctuations by scheduling employees for **split-shifts**; employees work a fixed number of hours, leave the work site and then return later the same day for a second shift. Most employees do not like this arrangement. While it may, on occasion, be necessary to schedule employees for split-shifts, in the long term its negative impact on employee morale may more than offset any legitimate cost/savings. Note: Some restaurant

managers offer a premium for split-shifts to offset the negative consequences of this scheduling alternative and, while doing so, can still achieve a cost savings.

RESTAURANT TERMINOLOGY AT WORK

Split-Shift: A work schedule in which an employee works a fixed number of hours during a shift, leaves the work site and then returns later in the same day for a second work shift.

- *Consider and Grant Employee Schedule Requests Whenever Possible.* Restaurant managers face a variety of challenges. One is balancing the personal needs of employees with the property's scheduling needs. Employees typically request earned (vacation) time off, preferred days off and special days off for personal time. While the restaurant's scheduling needs must, of necessity, be primary in the manager's schedule planning, the wise manager accommodates, whenever possible, legitimate employee work schedule requests. This must, however, be done in a fair way, and there should be a system by which each employee has a reasonable chance for requests to be granted.

- *Be Fair when Scheduling Preferred Time Periods.* For most restaurants, the workweek consists of some shifts that are less desirable than others. For example, Friday and Saturday nights might be

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some shifts that are less desirable than others. For example, Friday and Saturday nights might be busier than shifts earlier in the week for an upscale restaurant. It is likely that service employees working the weekend will receive greater tip income than those working at other times. Managers should ensure that, given the skill level of employees and the scheduling policies in effect, the most desirable work shifts are assigned in a fair and equitable manner.

- *Comply with All Applicable Laws and Company Policies.* An especially critical concern involves scheduling students or minors (those under eighteen years of age). The Fair Labor Standards Act (FLSA) includes a child labor provision that identifies restrictions on workers under the age of eighteen. Most importantly, all individuals under the age of eighteen must obtain a work permit unless they have graduated from high school or have obtained a general education development (GED) diploma. Only one work permit may be issued at a time, and it can be denied or revoked if the minor does not remain in good standing with the school. In most cases, minors are restricted in the number of hours that they can work, as well as when they can work. Good managers know applicable laws and their own company policies and always follow them. (Note; more information about the legal aspects of human resource management is found in Chapter Seven.)

- *Communicate Scheduling Decisions in a Timely Manner.* For most restaurant employees, their weekly work schedule dictates a significant portion of their personal lives. Time for shopping, doing personal errands, visiting friends and traveling are all dependent, in large measure, on their work schedules. It is important that managers complete and communicate work schedules in a timely manner.

THE INTERNET AT WORK

Creating an appropriate employee schedule should not require an inordinate amount of your time. There are a variety of employee scheduling aids on the market. To view two such programs, go to:

www.schedulesource.com

or

www.asgardsystems.com

Both systems offer free software trials!

Distributing the Schedule

Once a schedule has been developed, it should be distributed quickly and accurately. Sometimes, as a result of unexpected business volume, employee absences, and/or employee separations, alterations must be made; these changes should be quickly communicated to the affected employees.

Initial Distribution

In many restaurants, schedules are posted in one or more central areas of the property. In other cases, managers include the schedule along with paychecks. Increasingly, managers email schedules, make them available on the restaurant's intranet system, or post them on the Web.

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Schedule Modifications

Work schedules may need modification for a variety of reasons. Then the manager must communicate changes to employees as quickly and accurately as possible. In many restaurants, if an employee arrives at work on schedule and is "sent home early" or is not needed at all, a minimum amount of pay is due regardless of the time actually worked. Know your company's policies before making schedule adjustments and communicate schedule adjustments and modifications appropriately.

Managers should monitor schedules carefully and adjust them in the event of:

- Significant increases/decreases in forecasted business volumes
- Unanticipated voluntary and involuntary employee separations
- Employee **call-ins** or **no-shows**
- Unanticipated changes in operating hours or work assignments

RESTAURANT TERMINOLOGY AT WORK

Call-In: The term used to describe employees who, on a day they are scheduled to work, notify managers that they will not be working; sometimes referred to as a "call-off".

No-Show: The term used to describe employees who, on a day they are scheduled to work, do not notify managers that they will not be working, and then do not report for their assigned shift.

THE INTERNET AT WORK

Some restaurant managers find that building their employee schedules and then placing them on the Internet for their employees to view is a good way to make work schedules available on a 24/7 basis. To see how such a program works, go to:

www.workschedule.net

STEP 4: EVALUATE LABOR CONTROL RESULTS

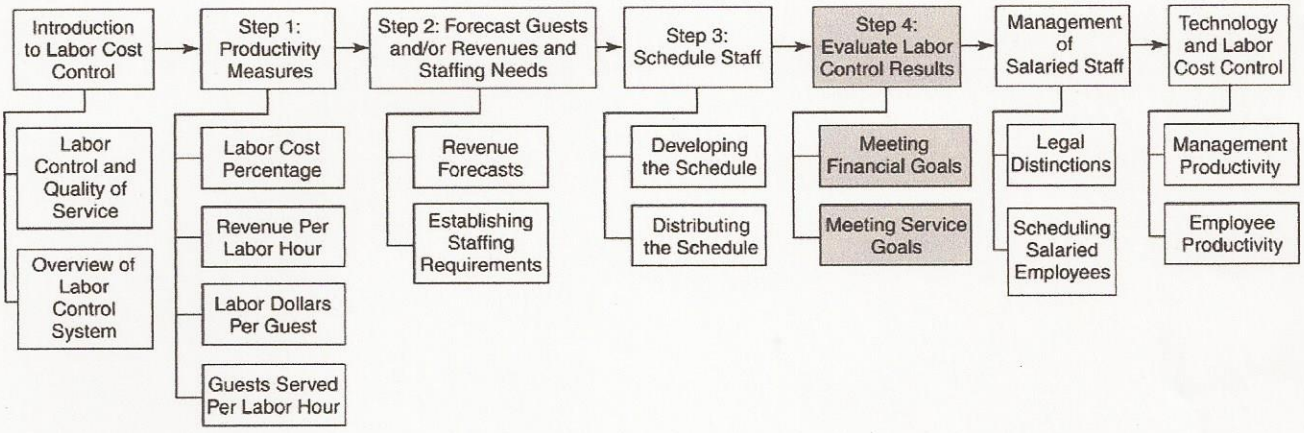
After you have properly developed, distributed, and implemented the employee schedule, you can evaluate the results and effectiveness of that schedule. Your scheduling skills will be judged by the ability to meet financial and guest service goals. See Flowchart 14.6.

Meeting Financial Goals

If you have developed a specific labor productivity measurement, you can evaluate actual operating results to see how closely you met your goals. If you did not meet or if you exceeded your goal, the amount by which actual performance differs from the goal or plan is called a variance.

For example, assume that LaToya anticipates $50,000 in revenue for a specific accounting period. Her target is a 30 percent labor cost: $15,000 ($50,000 × 30 =$15,000). When the accounting period is over, she finds that $50,000 in revenue was generated. However, she actually spent $20,000 on labor resulting in a 40 percent labor cost: ($20,000/$50,000 = 40%). In this situation, LaToya can compute the labor cost variance (difference) in either dollars and/or percent, as follows:

FLOWCHART 14.6



Dollar Variance: $20,000 actual cost (-) $15,000 targeted costs = $5,000 negative variance

Percent Variance: 40% actual labor cost % (-) 30% targeted labor cost % = 10 percent negative variance

In the above example, LaToya has experienced a negative variance; actual results did not meet expectations.

It is also possible to have a positive variance. Consider another manager who anticipates $50,000 in revenue and a $15,000 labor cost (same as above). While the revenue goal is attained, actual labor costs are only $13,000. Again, variance can be calculated in dollars and/or percent:

Dollar Variance: $15,000 targeted cost $13,000 actual cost = $2,000 positive variance

Percent Variance:

$$\text{Plannned cost: } \frac{\$15{,}000 \text{ labor cost}}{\$50{,}000 \text{ revenue}} = 30\% \text{ targeted labor cost\%}$$

$$\text{Actual cost: } \frac{\$13{,}000 \text{ labor cost}}{\$50{,}000 \text{ revenue}} = 26\% \text{ actual labor cost}$$

(30% - 26% = 4% Positive variance)

Most managers experience some variance between their forecasted and actual operating results. Forecasting exact business volume is very difficult as is estimating the exact amount of required labor. If the variance is small, it may be considered insignificant. For example, a variance of $5.00 in payroll costs which is part of an estimated payroll of $10,000 represents a variance which is irrelevant. By contrast, if variances in business volume and/or labor costs are very significant, managers must investigate that variance.

Figure 14.7 shows a form which managers can use to compute the estimated cost of the schedule they create. The actual labor cost to which the estimated (scheduled) labor cost would be compared comes from the restaurant's payroll records generated by accounting personnel or the payroll processing company used by the restaurant. Data used is for the restaurant schedule shown in Figure 14.5. (Times for management staff [Reesie D., Sam V. and Herman Z.] are not included because they are salaried [fixed cost] personnel.)

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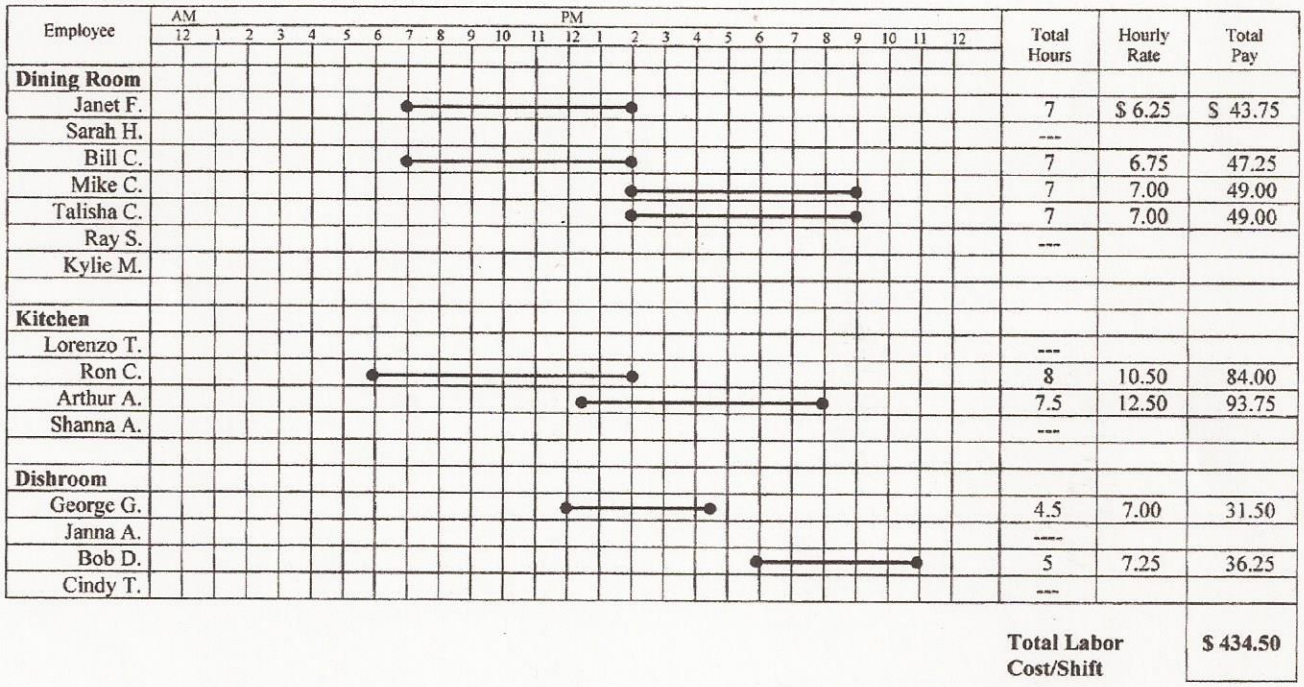
FIGURE 14.7 Estimated Total Payroll Cost Per Shift (Meal Period)

ANYTOWN STEAK HOUSE

Date: October 1



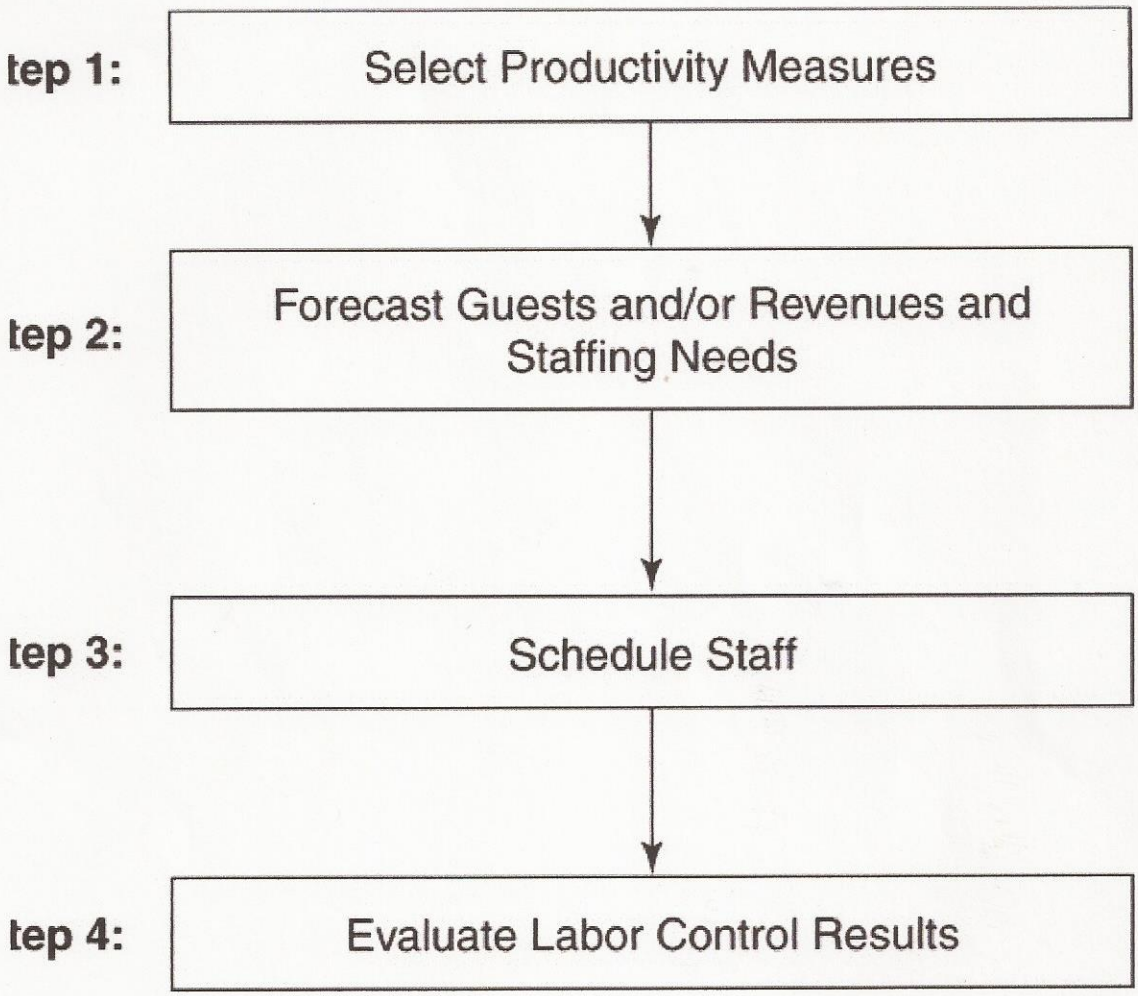
Employee	Total Hours	Hourly Rate	Total Pay
Dining Room			
Janet F.	7	$ 6.25	$ 43.75
Sarah H.	---		
Bill C.	7	6.75	47.25
Mike C.	7	7.00	49.00
Talisha C.	7	7.00	49.00
Ray S.	---		
Kylie M.			
Kitchen			
Lorenzo T.	---		
Ron C.	8	10.50	84.00
Arthur A.	7.5	12.50	93.75
Shanna A.	---		
Dishroom			
George G.	4.5	7.00	31.50
Janna A.	----		
Bob D.	5	7.25	36.25
Cindy T.	---		
	Total Labor Cost/Shift		**$ 434.50**

NOTE: "Total Pay" is payroll costs; it is not total labor costs because, for example, fringe benefit costs are not included.

By comparing the actual payroll cost or labor hours used to the estimated costs/hours scheduled (see Figure 14.7), variances can be computed. Increasing, automated systems are used to schedule labor hours and to compare them with actual labor hours utilized. These systems allow managers to quickly and accurately assess hourly variance details helpful in identifying potential problems.

As noted earlier, estimated and actual results can be assessed by employee classification (for example, servers, cooks, dishwashers and managers), for meal periods (breakfast, lunch, dinner) and/or for days of the week. Variations between scheduled (expected) results and actual results will likely occur. It will be your job as a manager to evaluate these differences to determine their cause and to take corrective action(s) as needed. (Note: Details about variance analysis and the corrective action process will be presented in Chapter Sixteen.)

FIGURE 14.1 Four-Step Labor Cost Control System



Four-Step Labor Control System: Overview

The menu, food production tasks that result from decisions about whether to make foods "from scratch" or purchase ready-made (convenience) foods, desired service levels and quality of training programs all impact a restaurant's total labor cost. Managers should use a sequential process to determine how many staff members must be available at some specific time to ensure proper guest service. This process consists of the four basic steps shown in Figure 14.1.

Managers must establish desired labor costs. To do so, you should select from a variety of labor productivity measures (Step 1). Next, forecast guests and/or revenues and the number of production/service staff required to do so (in Step 2). Employee schedules are then developed (Step 3). Finally, evaluate results to adjust scheduling procedures as necessary (Step 4). We will examine each of these steps in the following sections of this chapter.

MANAGERS AT WORK

"It was just awful," said Mrs. Kline. She was talking to Carlos Valdez, the owner and manager of the Five Pesos Mexican Cantina restaurant.

"I came here last week, and everything was wonderful," Mrs. Kline continued. "Then I made dinner reservations for myself and four of my friends for tonight, and everything went wrong! It took us forty minutes to get a table, even though I could see lots of empty tables in the dining room. When we finally got seated, it took fifteen minutes to place our drink order, and even then the waitress seemed rushed and unfriendly!"

I'm sorry," said Carlos.

"That's not all," replied Mrs. Kline. "It took a long time to get our food and longer to get our dinner check after we finished!"

"We had a big rush, and my servers were busy," explained Carlos. "I'm sorry we didn't serve you in the same efficient way we usually do."

As a manager of a restaurant, what will happen to your operation if too few staff members are available to serve your guests? Having too many servers available causes excessive labor costs; however, what are the hidden costs of having too few servers?

If you were Carlos, what would you do about the situation with Mrs. Kline and what could you do to reduce the potential for this problem in the future?

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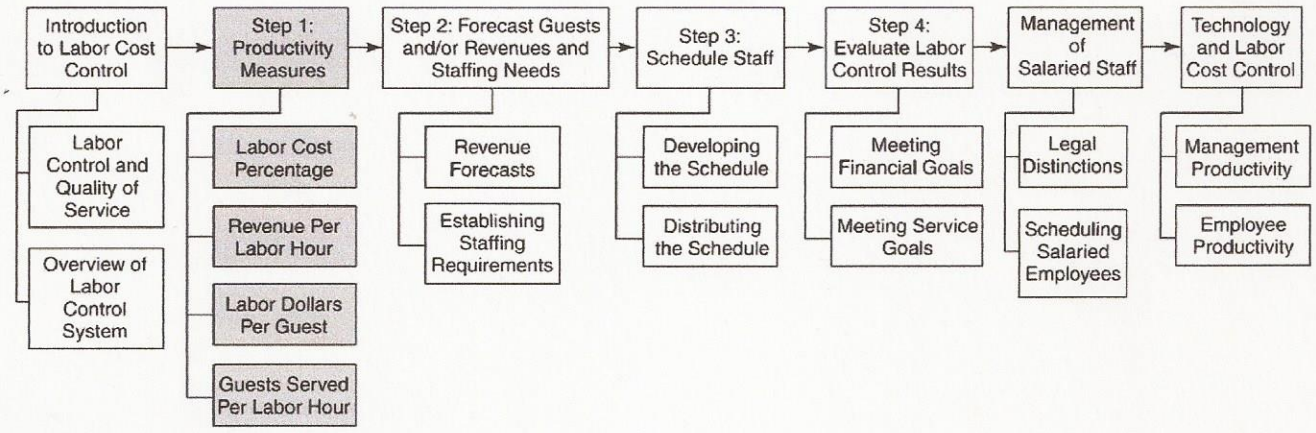
FLOWCHART 14.3



STEP 1: SELECT PRODUCTIVITY MEASURES

Restaurant managers measure productivity because they want to compare labor goals with actual results. To do so, the goal must be well-defined and appropriate for your operation. See Flowchart 14.3.