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Pressure Points: Focus on Labor

by John A. Gordon, principal and founder of Pacific Management Consulting Group

There are several large restaurant pressure points right now: That restaurants aren't getting their fair share of the pretty healthy economy and employment/spending base is one, too many restaurants is another and that labor market conditions are difficult is a third.

Every restaurant chain is noting the multiple problems with labor conditions, such as difficulty in recruiting and retaining employees; increased market driven and minimum wage effect increases in some states, counties and cities; increased store management costs due to retention issues and some brand's reacting to the fall 2016 management overtime standards issue. While there have been a lot of problems noted, not a lot of common solutions have been posed by or identified by the industry to date.

Interestingly, among restaurants, only Cheesecake Factory (CAKE) made it onto the Fortune 2017 100 Best Companies to Work For list. Even the Wegman's Grocery chain and the Sheetz C store chain made it on the list, but no other restaurant brands.

There are some things that can be done at every restaurant chain, at the store level, regardless of budget, management systems or operating philosophy to get to a better position on labor cost management.

- Manage the math: labor cost is an essential element of a service business like restaurants. In simple form, store level labor cost is the sum of hours used times a labor rate, plus benefits; plus management costs (either hourly or salaried); plus benefits, taxes and other indirect expenses and bonuses. Some of those factors are controllable, some are not. Labor costs are influenced by turnover; typically but not always experienced employers are more productive and confident in dealing with guests. Increased wage rates are one issue that is now somewhat uncontrollable, but how many hours are being used? What can be done differently to get the job done without disrupting customer service?

- Career ladders and specialization: some employees might want to stay longer but don't because they don't see any upside career potential, no "creds" that they might earn at a company. Underutilized employees who aren't engaged or learning don't get enough hours and will leave. However, it is always possible to create career ladders for the hourly associates. Who today doesn't want more individuals that could open or close the store alone, or to be the certified trainer, or run food preparation, or to be the inventory and "order putter away" lead? It builds character and expertise in the crew, and it can be the rationale for how merit pay increases can be flowed, rather than just via the calendar.

- Make smarter use of the labor hours guide: Most restaurants use a labor chart, or matrix to allocate labor hours to the stores for scheduling purposes at different volume levels. Others think more about the percentages. After living under or conceptualizing labor guides for many years, I feel the labor hours guideline is the best metrics base, with some qualifiers. For example, in the 44 tip credit states, the use of tipped personnel at heavy average check times of day can yield many much more sales throughput—high average check, high profit flowthrough sales--that can offset the incremental labor hours by a multiple of 50 or more. Thus, a "J Factor" plus up adjustment to the labor hours guide could pay off in some situations.

- Upselling produces labor cost coverage: In virtually every QSR and most fast casual concepts I visit, the rate of crew member's upselling is very low. It's better in casual and fine dining where there is more of a personal service relationship. The reluctance to upsell can be due factors such as menu unfamiliarity as well as difficulty with POS systems as well as the desire for transaction speed, among others. We've learned that digital and online applications almost always yield a higher average ticket, perhaps because the guest can finalize when they care to. Lesson: take time with the guest. Upselling doesn't reduce wage costs but it does cause favorable cost coverage. The gross profit on most upsell situations approaches 70-80%. If the crew doesn't know what to suggest, a mock question can be taught to them that would be appropriate in almost every case (example: "will that be large, would you also like a X")

About the author:

John A. Gordon is founder and Principal of Pacific Management Consulting Group, a restaurant analysis consultancy. He focuses on complex restaurant operations, financial, market and management analysis projects for clients, including expert research and litigation support. Typical clients are investors including hedge funds, investors, attorneys, management consulting firms, a sell side restaurant team and restaurant operators, franchisees, franchisors and others. Gordon has four decades in restaurant operations and financial management roles. His website is www.pacificmanagementconsultinggroup.com, email, jgordon@pacificmanagementconsultinggroup.com.

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