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Abstract

There are many factors which can assist in controlling the cost of labor in the food service industry. The author discusses a number of these, including scheduling, establishing production standards, forecasting workloads, analyzing employee turnover, combating absenteeism, and controlling overtime.

Keywords

Steven V. Moll, Food Service, Labor cost, Labor efficiency, Labor productivity, Scheduling, Bi-monthly paydays, FIU

Labor Cost Analysis for the Food Service Industry

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There are many factors which can assist in controlling the cost of labor in the food service industry. The author discusses a number of these, including scheduling, establishing production standards, forecasting work loads, analyzing employee turnover, combating absenteeism, and controlling overtime.

Over the past 15 years, the hospitality manager has been made increasingly aware of reducing payroll costs. While the cost of labor in a food service establishment is one of its two major expenses, labor may be more than, equal to, or less than the cost of food, depending upon the type of establishment. Labor cost is semi-variable, meaning management has some control over this expense.

The major purpose of labor cost control is for management to effectively extend its control through systematic recruitment, training, and use of personnel, recognizing that these measures require not only objective data analysis, but full appreciation of the human factors of leadership, loyalty and motivation.[1]

Personnel policies, the layout of facilities, size and type of menu, hours of operation, style of service, clientele, and numerous other factors influence the quantity of labor to be recruited and the sources to be explored to obtain it.

It is management's responsibility to establish a personnel policy, which essentially has to do with finding the right people. Personnel policy is a broad term and embraces all the relationships which develop between management and employees and between individuals within the organization. Unfortunately, the most efficient use of employees comes as a matter of luck in many food service operations. Many are hired and assigned to tasks where it is hoped they will be productive. However, there is little regard given to how these personnel may help the organization in a broader sense. Key words to the industry are efficiency and productivity, yet little thought is given to these words when it comes to placing employees.

The lack of thought previously mentioned has caused some major

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problems in the hospitality industry today. Productivity is at an all-time low for all American industry and low wages are once again becoming a burden for the working class. Through efficiency studies and time/motion reports, systems have been proposed which will help control employees and direct them toward the greatest productivity.[2]

Systematic personnel administration, continually reinforced with updated, modern techniques, will certainly result in higher productivity of employees.

In order to ensure higher productivity, a job analysis, containing job descriptions and specifications, is necessary. Job specifications list qualifications necessary to hold the job, including educational, physical, mental, and age requirements.[3] The job description lists tasks and duties performed on the job.[4]

Job Descriptions Assist in Training

Job descriptions and specifications are essential in efficiently orienting and training new employees. A total job analysis is also crucial for the labor cost control system to work. Hospitality management must take the entire workload to be accomplished and determine which employees should perform which tasks and how much they are expected to accomplish. The job analysis eliminates the question of who is expected to do what and prohibits the chance of some employees being overworked while others are underworked.[5]

Another factor management must consider is the simplification of the task. Work simplification involves studying and analyzing the job to find the easiest and most productive way to perform it. This way involves changing the layout of the physical plant, if possible, the introduction of labor-saving equipment (robotics are in the not-too-distant future, even for the hospitality industry), the introduction of pre-processed foods, and changes in methodology currently being followed.[6]

Whether employees are producing a maximum output commensurate with their labor input and whether an easier way of performing the work may be available are all part of the management task of work simplification.

Work production standards which provide a gauge to measure what to expect from an employee or position can be measured in either dollars of sales per day per employee or position, or in units (i.e., covers produced or served each day), or in hours per employee.[7]

The establishment of work production standards is usually the final link in the attempt to analyze labor costs in food service operations. The first problem, and one of the most difficult in using work production standards, is the establishment of those standards. Because of the diversity and individuality of food service operations, it is usually not feasible to use standards developed by other food operators. The menu, production methods, layout, equipment, service, pricing, and type of patron will contribute to differences in work production standards among various operations. In setting standards, the past productivity records of the better employees should be used. Operations that have used work production standards over long periods have found that these standards can often be revised upward. Because management and supervisors begin to look at jobs more critically when setting and maintaining the standards, they tend to discover new ways of doing the work better, faster, and easier. Some operations have been able to introduce a "competitive spirit," pitting their employees against the standards.[8]

Work production standards and labor cost percentages are often involved in advanced scheduling. One method of scheduling in advance requires an operator to forecast the volume of anticipated business in dollar sales for the following week. This figure is then multiplied by the desired labor cost percentage to provide a budgeted labor cost. One advantage of work production standards over labor cost percentages is that the labor cost percentage shows only the relationship between labor costs and sales, and it varies with changes in either. The standards provide a definite standard or goal to achieve, and it is easy to determine how close each job comes to the predetermined standard. With the standards, it is a simple matter for management to see if there is an excess or a deficiency of workers in the variable job categories. The work production standard can also relate to the overall quality of service because it can establish whether personnel had adequate time for their work.[9]

Workload Forecasting Should Be Considered

Workload forecasting is another technique and tool which should be either used or considered by the manager. The workload forecast is based on a prediction of sales expected each day. Management calculates the number and types of meals it expects to sell, and divides the forecasted volume of sales by work production standards (or normal workload per each type of employee). This should provide a basis for determining the number of each type of employee the operation requires.[10]

In institutional type food service operations that have a definite census, the forecasting of volume is very easy. In commercial operations where volume may fluctuate considerably, the problem is much more difficult. For commercial operations, an individual or a committee may be assigned the task of forecasting sales for subsequent days or meals. Besides being necessary for personnel requirements, the forecasting of activity is very necessary for food purchasing and production planning.

Too often, scheduling is done routinely. The same number of employees report in and leave at the same time every day. Some food authorities suggest that up to one-third of all labor time may be either wasted or severely limited by poor scheduling. In the food service field this is further complicated by the fact that meals are usually served during three peak periods daily. Scheduling ensures that the proper number of employees will actually be on hand for the volume of work required at the times needed.[11]

Control reports are the responsibility of management. The system will not succeed unless management checks its results carefully. The control report indicates how accurate the forecasting has been and whether the operation has been overstaffed or understaffed for the level of activity. These reports must be current, and management must take immediate action on them for optimum effectiveness.[12]

The above mentioned system is simple and logical and based upon common business principles. When operating properly, it can provide an alternative to random and potentially wasteful personnel utilization practices. The system can definitely increase productivity, lower labor costs, and help boost employee satisfaction and morale.

In analyzing employee labor costs, the hospitality operator should keep in mind that there are different classes of employees affected by changes in sales volume. These classes are often labeled "fixed," "semi-variable," and "variable." A fixed employee is one who is necessary to the business, regardless of its volume. Whether business is heavy or light, the operation will still need the general manager's secretary, a cashier, or a porter, for example. The only way to effect a lower unit-labor cost on these fixed positions is to increase the sales volume. Dishwashers might be considered semi-variable workers because there is usually a significant change in business before fewer or additional dishwashers are required.[13]

Service and preparation personnel are variable personnel in most operations. Their number fluctuates according to changes in sales volume. Some operators have chosen to turn these variable employees into fixed employees by keeping a constant number of service personnel on duty, regardless of the forecasted volume. This practice may help explain why up to one-third of all labor time in the food service industry may be wasted due to poor scheduling.[14]

Labor cost analysis has two major functions: one is determining whether labor costs are excessive or insufficient; the other is determining where these inadequacies occur. Necessary corrective measures may then follow.

Employee Turnover Is Major Problem

A major problem in the food service industry, one which has a direct effect on costs and productivity, is employee turnover. In the food service industry, turnover is far above that of general industry. As much as 10.4 percent per month, or about 125 percent per year, has been reached in some establishments.[15] Despite these high rates, many individual operations have a low turnover, proving that high turnover is not necessarily inherent to the food industry and that it can be solved. Estimates of the cost of replacing a rank and file employee range from $200 to $800. This includes finding, hiring, and training a new worker and providing for initial lack of efficiency, increased supervision necessary, increased breakage, additional unemployment and social security tax payments, and additional record-keeping. There is also the intangible, nonmonetary cost of less efficient service to the patron, which may result in dissatisfaction and loss of patronage. The greatest turnover usually occurs within the first two weeks of employment, thus any long-term benefits of training and supervision are wasted.[16] The following list discusses some of the major causes of turnover among food service employees:

- poor selection, hiring and orientation;
- new employees placed in jobs that are not compatible with their capabilities;
- inadequate information about the job or its requirements;
- inadequate or poor supervision, causing a potentially good worker to give up during the breaking-in period;
- lack of a proper wage rate structure;
- lack of a training program;
- lack of grievance outlet;
- poor working conditions;
- lack of advancement;
- lack of financial incentive; and
- apparent lack of supervisory interest.[17]

Absenteeism, illness, and leave without permission cause many problems in the food service industry. Because most operations are relatively small, the absence of even a few employees can affect sales volume. Generally, operations that have the most casual attitude toward absenteeism have the highest rates of absence, while those which make a concerted effort to curb it usually meet with some success.[18] Reasons for absenteeism vary considerably from establishment to establishment; some authorities have tried to classify them under three broad categories of causes: on-the-job, community, and personal. On-the-job causes might include poor supervision, kitchen heat, fatigue, dirty working conditions, or poor morale. Community causes could include poor transportation, inadequate police protection, or lack of child care facilities. Personal causes might include illness, alcoholism, drug addiction, family responsibilities, or psychological problems. The employer can do much about the on-the-job causes and can sometimes help in the personal category.[19]

Some techniques which have been found helpful in combating absenteeism are as follows:

- checking on the absentee,

- bonuses for attendance,
- preventative medicine (usually through a health insurance plan), and
- use of social agencies.

One of the best ways to encourage high labor costs is having uncontrolled overtime work. There may be instances when it is necessary to have employees work beyond their normal hours. If not controlled, however, supervisors can use overtime as a substitute for improper scheduling and planning.[20] Employees may try to create overtime conditions for the extra money, especially if a premium overtime rate is paid. To avoid overtime, it is necessary that workloads be forecasted and the staff scheduled for the workload within the normal period.

Overtime Can Be Controlled

One practice that has been found to be very helpful in controlling overtime is to require a requisition in advance for overtime personnel; this should include the name and the job of the employee involved, the amount of overtime required, and the reasons for the request. Management approves the requisition by signing it. Besides being a control device, the form requires supervisors to correlate accurately the personnel with the workload because they must determine in advance whether they will need overtime assistance or not. There are, of course, reasons for overtime (i.e., breakdowns or unexpected business) which cannot be predicted in advance. In such cases, management should insist that an overtime report be prepared within 24 hours showing the amount of overtime worked and the reason for it.[21]

Bar charts are a terrific visual tool used in helping to analyze the use of labor in food-service establishments. Not only do they present the information in a form which may be readily analyzed, but they also provide a unique presentation which makes the information easier to absorb. Bar charts can help determine how busy employees are, how well they are scheduled in relation to workloads, and whether or not too many employees have been hired. Through the use of bar charts, management quite often discovers, for example, that employees are arriving for work before they are actually needed (as when dishwashers come on duty at 7 but the dishes do not arrive at the dishroom until 9). Management may find that there are too many employees on hand for the volume of activity at one time during the day and that there are too few at another time. Employees may have been originally scheduled properly, but workload conditions may have changed while the working hours remained the same. Under changing conditions, alert management will reschedule employees.

Until this point labor cost reduction has been discussed without mention of payroll cost reduction. Payroll costs are essentially those directly associated with the payroll function. Methods which can be adopted to simplify the payroll effort can include the following:

Fewer paydays: From the establishment's point of view, costs would be greatly reduced if paydays were bimonthly instead of biweekly. There are 24 paydays instead of 26, with more economy in the handling of tax records and deductions.

Staggered payment: By staggering the times employees will receive their checks, productivity can be kept to a much higher level than paying everyone at once and watching the usual chaos which results. If everyone is paid at noon each Friday, the period of time just prior to payment is apt to have low work output in anticipation of payment, while the afternoon working time will have even lower work output as employees anticipate leaving work to enjoy their salary.

Pay by check: Checks provide an additional record of payment and eliminate the handling of cash. A computerized payroll is now affordable for even the smallest of establishments.

Transparent-window pay envelopes: These help avoid the cost of typing the employee's name a second time.

Limited pay band incentive scales: This is a way to reduce the amount of time required to calculate the total payment.

Time clocks used only for overtime: This eliminates additional paperwork requirements under normal working conditions.

Form design: This should emphasize saving of machine time used in payroll preparation and should incorporate multiple forms in a carbon-set style to reduce form recording.[22]

We have seen that by the combination of well-established and smartly-implemented personnel policies, coupled with a management approach to analyzing labor costs through the use of control reports, that a food service establishment may realize and maintain the profit margin it desires. Progressive operators are becoming more and more aware of the techniques previously mentioned, and, in the future, controls can only become more a part of daily life in the management of a food service establishment.

Footnotes

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