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# How to Optimize Your Labor & Control Costs

You're running fast ... it's time to run smart



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# Introduction




**Under pressure.** If you're a restaurant operator, David Bowie has summed up in two words the way you're feeling about your profit margins.

In this industry, that kind of pressure is not an unfamiliar sensation—we know our margins are slim—but right now, you're feeling the squeeze more than ever. That's thanks in large part to rising wages and the fact that traffic has been static or slowing. You can't help but sweat a little.

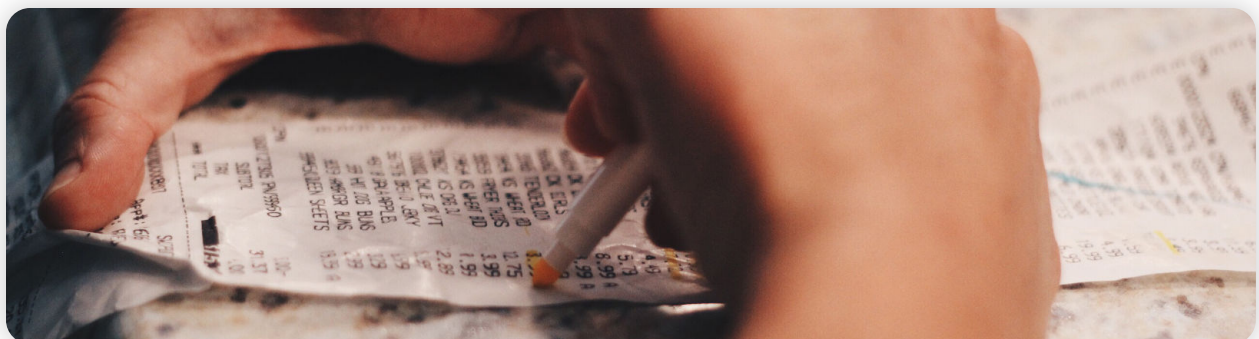
During times of tightening, operators tend to dig into the numbers even further and scrutinize every dollar spent and every dollar saved.

Our goal with this short guide is to show you the simple yet effective ways restaurant operators and managers can cut labor costs while optimizing your people, performance and profits. Some ideas you could literally start doing the minute you're done reading. Others may take a little more time, thought, planning and accountability. Either way, the return on investment is totally worth your time because all of these small changes add up to big savings.

You'll find these cost-cutting and dollar-savings tips are broken down into ways that you can:

-  **Cut** costs
-  **Manage** the business to keep costs at optimal levels
-  **Measure** performance to ensure your efforts continue to produce the right results

Let's start slicing, dicing & saving!



# 1. Cut Costs

## Stop Paying for Early Clock-Ins



### **Five minutes here, 15 minutes there.**

Every time one of your team members clocks in too early it's like skimming a tiny sliver of profit off your bottom line. On average, without time clock enforcement, 15-20% of a restaurant's staff will clock-in at least 10 minutes early per day. Additionally, staff can ride the clock at the end of their shift, translating into increased overtime and increased labor hours paid out.



### **The solution?**

Enforced clock-ins through an integration with your Point of Sale (POS) system and labor management tools. You configure the POS system to only let employees clock-in five minutes before their shift, and an online scheduling system goes to work making sure your employees punch in at the appropriate time using rules set-up in the back-end.

## Validate Job Codes & Punch Cards



### **Did your employee clock-in as a cashier but work the drive-thru?**

It's common for employees to work more than one position at a different pay rate. Clocking in under the wrong job code could end up costing you more—either because the employee's pay rate is higher than it should be or because it'll cost you in payroll administrative costs to investigate and fix the error.



An integration between your online scheduling system prohibits an employer from clocking-in under the wrong job code using automation controls set up through the system.

**15-20%** of a restaurant's staff  
will **clock-in** at least **10 minutes** early/day.

# Cut Costs

## Reduce Schedule Creation Time



Writing a schedule can take managers four hours or more. On top of it all, there are endless phone calls, texts and sticky notes to keep up with and communicate schedule changes.



Online scheduling solutions can reduce the time it takes to create schedules by 75% because managers can copy schedules from week to week and make tiny tweaks instead of always starting from scratch. Employees are instantly updated through a mobile app any time a change is made and can request edits to the schedule pending a manager's approval. All of that automation and ease-of-access saves your managers' time (and you payroll costs!) while reducing expensive scheduling errors.

Online scheduling tools can reduce the time it takes to create schedules  
**BY 75 PERCENT**

## Reduce Unnecessary Overtime Hours



Uncontrolled overtime is a huge labor expense.



With an overtime report, managers can see which employees have scheduled overtime as well as the overtime costs for each day and week. Using the overtime reports, managers can make adjustments to schedules throughout the week or month and monitor the impact on things like labor costs, labor percent, and volume. In HotSchedules, for instance, the Overtime Warning Report can be configured by schedule, job code or employee. Once generated, managers can see actual employee hours plus how much is scheduled, then the date and time that the overtime could potentially start.



Annual Projected Sales: \$2M



Poor Labor Controls



Waste



Spoilage



Theft



Adds up to a \$0.05 loss on every sales dollar

$$\$2,000,000 \times \$0.05 = \text{\$100,000 annually}$$

# Cut Costs

## Avoid Overstaffing



Overstaffing is pretty easy to spot. Team members are standing around and people are getting in each other's way. Managers tend to overstaff to account for those "just-in-case" peaks in volume. There's a general thinking that overstaffing and cutting people is better than understaffing and having employees on-call. The two biggest problems with overstaffing are the costs that comes with paying people to stand around and the low productivity that comes as a result of the all that standing around.



## Avoid Understaffing



Understaffing appears to keep everyone busy. But at some point, you have to wonder at what cost? Understaffing could lead to employee burnout. It could also lead to poor customer service and shortcuts that could be harmful for guests and employees.



Building a schedule based on sales or guest volume data that also takes into account variables like weather, events and marketing initiatives is the best way to optimize labor spend.

## Stagger Arrivals/Departures



When you have a forecast based on actual labor data, you are able to stagger arrival times and departures. Instead of having block schedules where everyone arrives at the same time and leaves at the same time, managers start to learn which positions can arrive and leave at different 15 or half-hour increments to optimize your labor spend. Over time, that extra 15 or 30 minutes adds up to significant labor savings.

## Integrate Your POS with Your Scheduling Software



Manually writing out schedules each week is not only a time-consuming task for managers, it's prone to errors that could be expensive down the line. Integrating your POS with an online scheduling system eliminates duplicate data entry and the cost of human error.



An integration automatically sends data between the two systems each night—so your POS has the most up-to-date schedule, and your online scheduling system pulls in actual punch data managers can use when adjusting schedules throughout the week.

## Cut Costs, Not Wages



Controlling labor costs through cuts doesn't necessarily mean you have to reduce wages. In fact, there's an element of employee productivity and satisfaction that comes from paying your staff a living wage. Which is good news, considering wages are going up across most of the country.

## 2. Manage Labor

### Use Scheduling Templates



Scheduling templates are proven to reduce the time it takes managers to make a schedule. Managers can set up templates based on sales targets or based on seasonality. That kind of optimization can prevent understaffing or overstaffing issues and increase guest satisfaction.

### Forecast at the Quarter Hour Level



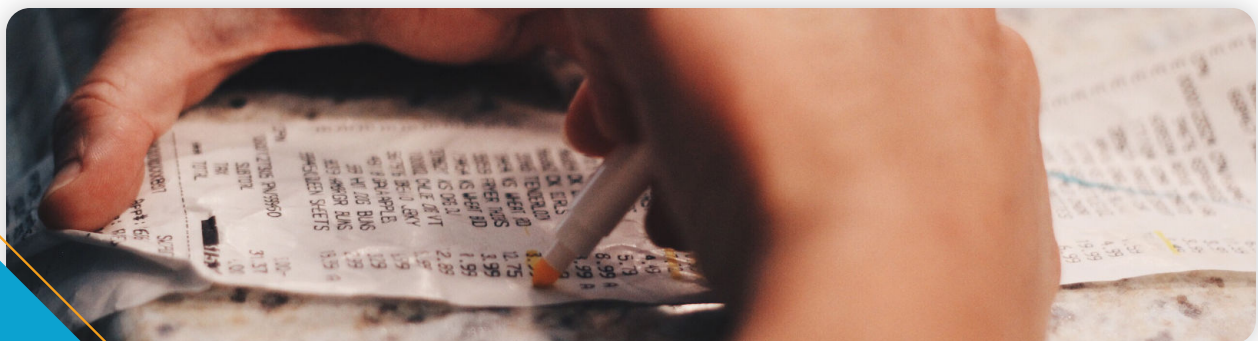
Labor management is an exercise in optimization—not sweeping people cuts. The goal is to focus on finding the right balance between quantity of staff and quality of service. Which is where forecasting at the quarter hour level comes in.

Instead of bringing in extra staff “just in case,” managers are able to accurately predict the absolute minimum staff needed based on a budget of annual sales and a labor percentage target.

### Schedule Based on Skill Level



Not all employees are created equal. Employees who are new to your operation and the industry are still learning and training. Your veterans, on the other hand are skilled and ready to take on more. Those skill levels can come in handy when you’re scheduling or approving shift swaps. Scheduling the right balance of new and skilled employees can also help you reduce errors and waste on the floor and in the kitchen.



## Automatically Schedule Your Meal Periods



Meal periods are hard to manage when you've got a lot of different jobs and different types of breaks or meal periods. That's where technology can help. For example, with the HotSchedules Meal Period & Break Planner feature, the shifts that require a break are highlighted for the manager. Shifts specifically intended to cover these breaks are then created for the manager to distribute as needed. Managers apply meal period planning to their completed schedule (before posting). This will schedule out all necessary unpaid breaks for employees, and breaker shifts will be created to cover those breaks.

## Plan for Shift Changes



Your employees expect flexibility in their jobs—in many cases, that's why they got into the restaurant business in the first place! Balancing that need for flexibility with the business needs is crucial. With an online scheduling app, employees can swap and pick-up shifts while managers can make adjustments to the schedule and keep labor at optimal levels. With each schedule transaction, managers can see the implications of each shift swap and each release/pickup.

## Predict Optimal Schedules with Advanced Labor Forecasting



You probably have a good idea of how many guests were served over a certain day part, how much they spent, and what you paid employees. If you know these figures, you're well on your way to understanding what's driving profits.

Advanced labor forecasting takes all of that data and with some smart algorithms, generates shifts to create the most optimal schedule possible based on your labor drivers.





# 3. Measure Performance

## Tie Schedules to Budget



Are your managers monitoring how your actual labor and sales stack up to your predicted labor and sales? Knowing how your labor is performing against your target budget numbers and comparing it to your scheduling templates or any new schedule helps give you crucial insight into your business' performance. In HotSchedules, for instance, you can enter in your desired budget, and compare it to your schedule before you post it, so you can always stay in the black with your financials.

## Measure Your Labor Percentage



You can learn a lot from your restaurant's labor spend using the labor as a percentage of sales metric. Most restaurants challenge their managers to maintain a specific labor percentage. This ensures that managers have scheduled the right amount of labor for the right amount of sales. The higher the percentage the higher your labor costs, the lower the percentage, the lower the labor costs.

Keep in mind that a low labor percentage isn't always ideal. A lower than average labor percentage could indicate understaffing and become a quality and guest satisfaction problem.



**IS YOUR LABOR PERCENTAGE TOO HIGH?** There is no universal standard when it comes to a "good labor percentage." There are just too many variables and restaurants are too unique to come up with one glorious industry standard. But there is such a thing as "too high."

**Ideal Labor Percentage Threshold 14%-21%**  
**What's too high?** Anything in the high 20's or above threatens to put you out of business

## Measure Your Sales Per Labor Hour



Promotions, discounts, coupons and food cost increases can throw off your labor percentage and trick you into thinking you had too much or too little labor coverage. This is where Sales per Labor Hour (SLPH) comes into play. Your SLPH can be used to drive optimal team member hours. It's a key performance indicator (KPI) designed to help managers schedule the correct amount of staff based on forecasted transactions/sales. It's a more accurate calculation because it's not distorted by the way sales are affected by price increases and discounts.

## Review Your Actual vs. Scheduled Data



The leading indicator of poor staffing is a large discrepancy between actual vs. scheduled hours. Tracking actual and scheduled hours worked, overtime hours and other bits of scheduling data can give managers the information they need to make more informed and intelligent scheduling decisions. Regularly reviewing your restaurant's scheduling data is just another habit that can lead to optimal schedules and labor costs.



The leading indicator of **poor staffing** is a large discrepancy between actual vs. scheduled hours.



## Annual ROI: Labor Cost Controls

PAYBACK METRIC	ESTIMATED SAVINGS	ANNUAL PER STORE VALUE
<b>Optimize Hourly Labor</b> Forecast Driven Scheduling, Enforced, Optimized Employee Schedules	1 Hour Per Day (\$8)	\$2,904
<b>Manager Time Savings</b> Shift Swaps and Trades, Request Offs, Shift Questions	½ Hour Per Day (\$5)	\$1,815
<b>Overtime Visibility</b> Accurate tally of actual hours worked and forecasted hours based on remaining shifts and in week changes	½ Hour Per Week (\$6)	\$312
<b>Engaged Employees, Working the Shifts they Desire Reduce</b> Turnover, Hiring Costs, Onboarding, Training, Uniforms, etc	2 Employees Per Year (\$1,500 typical)	\$3,000
Total Estimated Savings		\$8,031

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## About Fourth

Fourth provides end-to-end, best-in-class technology and services for the restaurant and hospitality industries. Their procurement, inventory and workforce management solutions, coupled with the industry's most complete data and analytics suite, give operators the actionable insights they need to control costs, scale profitability, improve employee engagement, and maintain compliance. Since its merger with US-based HotSchedules, Fourth serves more than 7,000 customers across 120,000 locations globally.

### You have enough to do.

Let's help get the administrative busywork off your plate. To learn how we can help simplify your back-office operations, boost your efficiency and profitability, and improve your inventory management, contact us today.

[fourth.com/contact-us](https://fourth.com/contact-us)

