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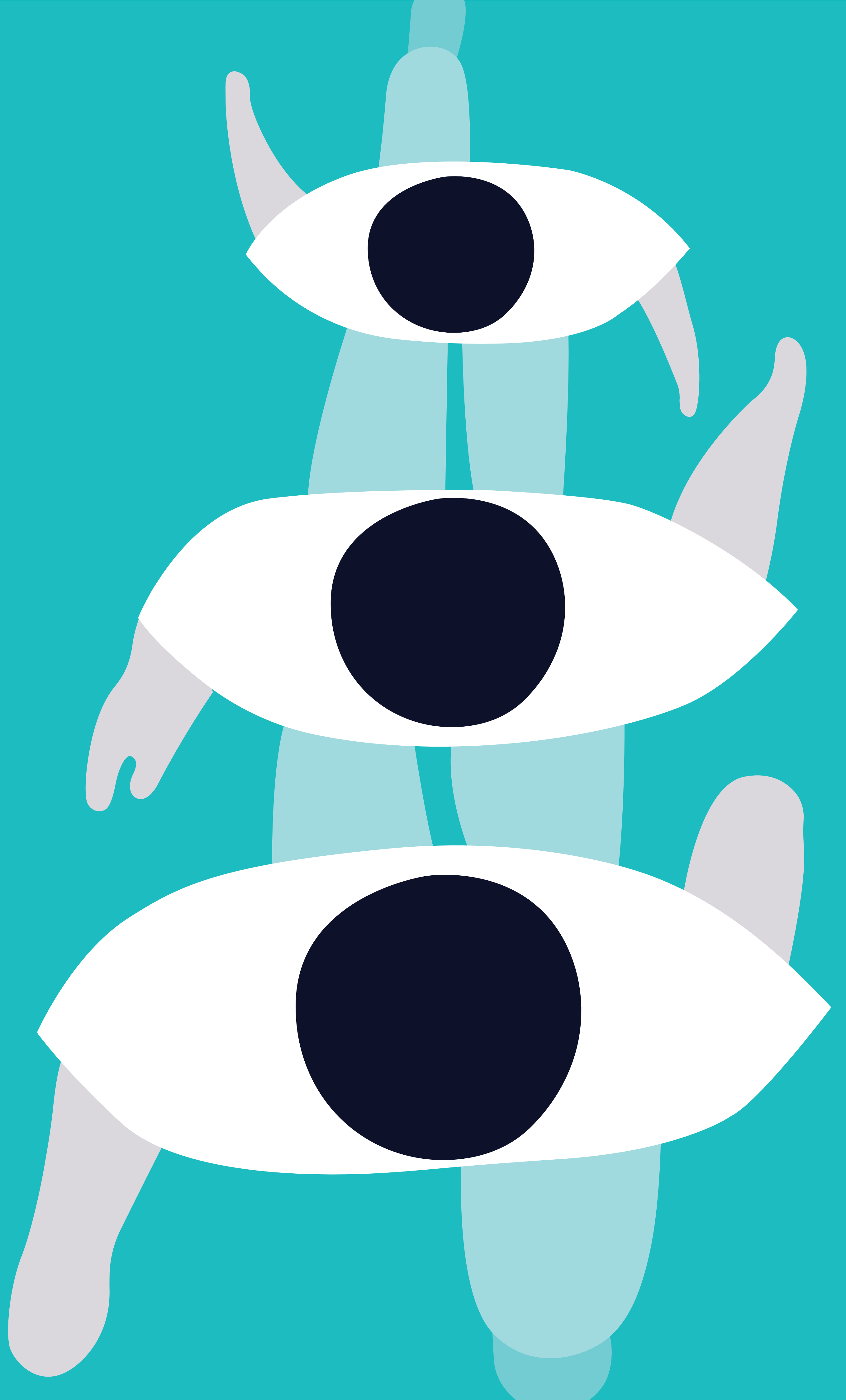
Ultimate guide to managing your restaurant labour costs.

Let’s find new ways to make your operation more profitable.



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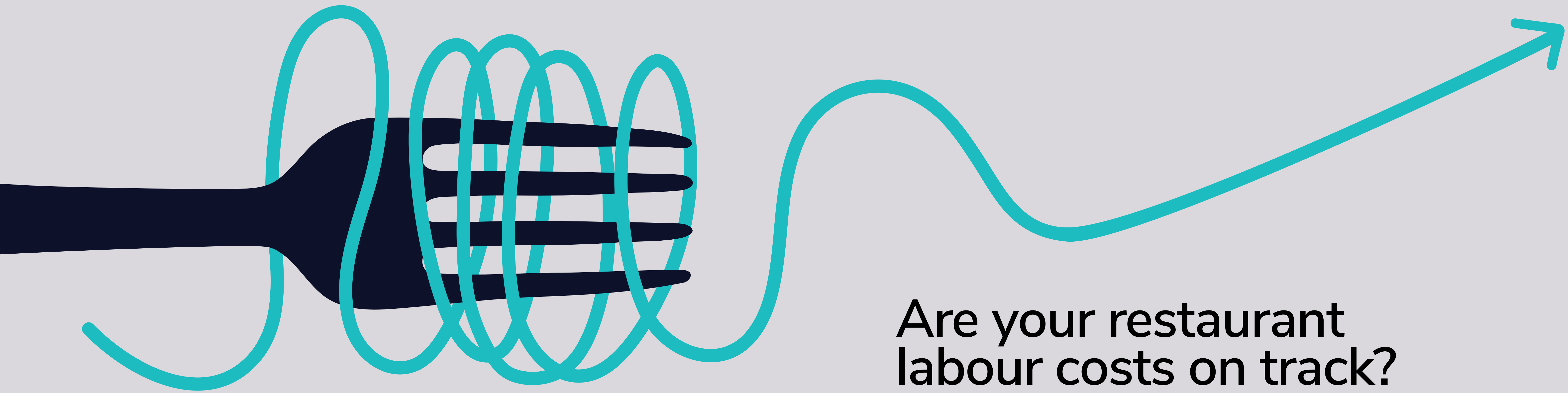

Are your restaurant labour costs on track?

UK restaurants have experienced significant turbulence in recent years. But amid all the economic uncertainty and supply chain disruption, there's been one constant ... labour costs have increased. As a result, margins have been squeezed ever tighter.

It's possible for restaurant executives to feel powerless in this scenario. After all, there are some labour costs you can't control. But other components can be managed and optimised. It's vital to understand the connections with profitability, customer service and other factors across your business.

This guide explores the topic of managing labour costs – to help you to develop and refine your restaurant's strategy and decision-making.

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Understanding Labour Cost Percentage

LCP is a pivotal financial metric that restaurants rely on to gauge the proportion of their total revenue allocated to labour expenses. These expenses encompass employee wages, benefits and payroll taxes. Calculating LCP is more than just a number; it's about gaining insights into your restaurant's labour cost efficiency and enabling informed decisions to manage expenses, ultimately bolstering your profitability.

For restaurant executives and managers, LCP helps you to determine whether your labour expenses align with your objectives. A high LCP could signal inefficiencies in staffing or labour costs exceeding industry norms, potentially impacting profitability. Conversely, a low LCP may indicate that your operation is understaffed or not fully utilising its workforce.

Significance of LCP

Here's why LCP matters:

- **Efficiency insights**:
  Your LCP helps you identify areas for improvement, ensuring you're neither overstaffed nor understaffed.
- **Profitability impact**:
  By optimising your LCP, you can enhance your financial bottom line without compromising the service quality your customers expect.
- **Benchmarking**:
  LCP gauges your labour cost efficiency against industry standards, so you can stay competitive.
- **Employee well-being**:
  Achieving the correct LCP is also about ensuring your employees are fairly managed, compensated and motivated.

Factors Shaping LCP

As we journey deeper into the realm of labour cost management for restaurants, we'll explore the multifaceted factors that shape your restaurant's LCP. This is pivotal for informed decision-making and deploying strategies to manage labour costs effectively.

Benchmarking LCP

Benchmarking your restaurant's LCP is a crucial step in ensuring your labour costs are competitive and aligned with industry standards – so you'll know how to manage them better.

Here are some general benchmarks to consider for various types of restaurants.

Traditional LCP benchmarks for different types of businesses

Quick-service restaurants
- Best-in-class: 20%
- Average: 25%
- Low Performance: 30%

Fine dining restaurants
- Best-in-class: 25%
- Average: 30%
- Low Performance: 35%

Cafes
- Best-in-class: 25%
- Average: 30%
- Low Performance: 35%

Pubs
- Best-in-class: 30%
- Average: 35%
- Low Performance: 40%

Important: A note of caution

While these broad figures serve as a starting point, metrics have been changing in the post-pandemic world. For example, typical labour costs have risen sharply. So, the percentages shown here will fluctuate.

Benchmarking is not a one-size-fits-all

It's crucial to understand that each restaurant is unique and these figures may not be directly applicable to your establishment. Your restaurant's specific circumstances and objectives should guide your benchmarking efforts.

Different types of restaurants also have distinct labour cost benchmarks due to variations in service, staff training and customer expectations.

What other factors could be relevant to your benchmark?

Also consider these points:

- **Type of restaurant**:
  The nature of your restaurant influences labour costs. For instance, fine dining restaurants may have higher labour costs due to well-trained staff and higher service standards.
- **Location**:
  Diners in urban areas generally face higher wages and living costs, which can impact the LCP.
- **Size of the restaurant**:
  The size of your establishment affects economies of scale. Smaller restaurants may have higher LCPs due to having fewer staff.

Delving deeper into labour cost factors

It's essential to explore the nuances that affect LCP. These factors go beyond the fundamentals and provide a comprehensive understanding of how to optimise your restaurant's labour costs.

Seasonality and staffing needs

Restaurants often experience fluctuations in labour demand due to seasonality. For instance, during peak seasons, additional staff may be required to meet customer demands. This may increase labour costs during those periods. Effective labour management means anticipating these fluctuations and planning staffing levels accordingly to balance the LCP.

Overtime and scheduling

Overtime pay and scheduling practices can significantly influence LCP. Regular overtime can drive up labour costs, affecting profitability. Inefficient scheduling can lead to overstaffing, which is also detrimental to the LCP. Effective scheduling and overtime management are key components of cost-efficient labour practices.

Employee turnover and training

High employee turnover can inflate LCP due to the costs associated with recruiting, hiring and training new staff. Proper training programs can mitigate this by improving employee productivity, reducing errors and ultimately lowering labour costs. A well-trained team is not only efficient but also cost-effective.

Wage rates and benefits

Wage rates and benefits directly impact LCP. Higher wages and extensive benefits can drive up labour costs, while lower wage rates and benefits can reduce LCP. Striking the right balance between fair compensation for employees and cost-effective labour management is a critical aspect of restaurant success.

Payroll taxes and insurance

Payroll taxes and insurance are additional contributors to LCP. Understanding and managing these expenses is essential to achieving an optimal labour cost structure. Keep in mind that employers are required to pay payroll taxes, which can impact labour costs.

Performance management and incentives

Effective performance management and incentive programs can improve productivity, thus reducing labour costs. Incentive programs motivate employees to work more efficiently, resulting in cost savings for the restaurant. Developing such programs is an investment that can pay dividends in labour cost management.

Productivity and efficiency

Improving productivity and efficiency is a cornerstone of effective labour cost management. Proper training, scheduling and equipment can all contribute to enhanced productivity and lower labour costs. These efforts lead to a more efficient workforce, which benefits both your restaurant's bottom line and customer satisfaction.

Sales volume

Changes in sales volume can significantly impact LCP, especially because labour costs often remain relatively fixed in the short term. During slower periods, restaurants may need to reduce staff or hours to manage labour costs effectively. Conversely, during peak business periods, additional staff may be necessary, driving up LCP. Striking the right balance is an art in itself.

Put simply ...

By diving deep into these factors and meticulously managing them, you'll be better equipped to fine-tune your labour cost management strategies, ultimately optimising your restaurant's financial performance.

Other important nuances to consider

Local labour market dynamics
If there's a high demand for skilled labour in your area, your restaurant may need to pay higher wages to attract and retain qualified employees. Conversely, if there is a labour surplus in your locality, you may have the advantage of paying lower wages, potentially reducing your LCP.

Menu complexity and offerings
Complex dishes may necessitate highly trained and skilled staff, driving up labour expenses. Offering a high-end wine list or specialised items can also require more experienced and knowledgeable employees. Moreover, larger restaurants may require more staff to handle higher customer volumes, contributing to higher labour costs.

Employee training and development
Investing in staff training and development programs can lead to more knowledgeable and skilled employees, contributing to higher labour costs. Training programs, seminars and workshops come with associated costs. Additionally, employees may require additional compensation for the time spent attending these activities. However, such investments can also improve employee efficiency, reduce turnover and enhance overall service quality.

Employee benefits and compensation
Offering health benefits and paid time off to employees can increase labour costs. However, it's important to note that some spending may be legally required. Additionally, offering benefits can improve employee satisfaction and retention, ultimately benefiting the restaurant.

Innovations in service models
Implementing a self-service model can significantly reduce labour costs, as fewer employees are needed to serve customers. This can result in a lower target LCP.

Service style considerations
Different service styles can affect labour costs. For example, fast-casual restaurants that offer higher-quality food may require more skilled staff, leading to higher labour costs compared to quick-service restaurants. Fine dining establishments may have even higher labour costs due to the more formal and elaborate service they provide.

Menu and staffing strategies
Increasing the number of menu items can help distribute labour costs across a larger number of sales, potentially improving the LCP. Conversely, hiring more full-time employees, reducing employee wages or increasing employee benefits could increase labour costs and have the opposite effect.

Efficiency measures and productivity
Reducing employee hours can lead to reduced productivity and potentially lower service quality, which may negatively impact sales and the LCP. Cross-training employees, reducing employee turnover and implementing technology to automate tasks can improve efficiency and reduce labour costs.

Investing in employee development
Investing in employee training and development can lead to more efficient, productive and satisfied employees. This can result in lower turnover and improved service quality, ultimately impacting the LCP positively. However, cutting employee benefits, increasing employee wages or hiring more part-time employees could potentially increase labour costs and have the opposite effect.

Cross-training for flexibility
Cross-training employees to perform multiple tasks can enhance efficiency and reduce labour costs, especially during periods of low sales. This ensures you have enough employees available to perform all necessary tasks without needing to call in additional staff. However, reducing employee hours or training, or increasing employee benefits, could potentially have negative impacts on employee morale and service quality.

Leveraging technology for efficiency
Implementing self-service ordering and payment can help reduce labour costs by reducing the number of employees needed to take orders and process payments. This can also enhance efficiency and reduce wait times for customers.

Common mistakes to avoid

Excessive overtime

When restaurants are understaffed during busy periods, it can lead to longer wait times for customers and lower sales. Staff may be required to work longer hours.

But offering too much overtime can result in higher labour costs. It is essential to limit the amount of overtime offered and ensure that employees are not working more hours than necessary to complete their job duties.

Inadequate time-tracking

Failing to track employee hours accurately can lead to employees being underpaid or overpaid, which affects your LCP. To avoid this mistake, it's crucial to implement a reliable time-tracking system and ensure that employees accurately record their hours.

Poor scheduling practices

Overstaffing during slow periods can result in excess labour costs, while understaffing during peak periods can lead to longer wait times and poor customer service, ultimately affecting sales. Allowing employees to work unauthorised overtime can result in higher labour costs, as well as potential legal issues.

Ignoring data and trends

Not taking into account historical sales data can result in overstaffing or understaffing. Failing to consider employee availability and preferences can lead to employee dissatisfaction and high turnover. Ignoring weather forecasts and seasonal trends can result in inaccurate labour schedules, leading to overstaffing or understaffing. All these factors matter.

Lack of communication and training

Poor communication between front-of-house and back-of-house staff can result in delays and mistakes, ultimately leading to higher labour costs. Inadequate training and onboarding processes can result in employees not performing their tasks efficiently. Inefficient use of technology and automation can also lead to inefficiencies and higher labour costs.

Making your restaurant more profitable

Effective management of LCP is essential for restaurant operators. By tracking and managing their LCP, operators can identify inefficiencies and areas for improvement, ultimately leading to reduced labour costs and increased profitability.

In a highly competitive industry where profit margins can be thin, keeping a close eye on LCP is critical. External factors, such as changes in the economy, minimum wage laws and competition, can all impact a restaurant's labour costs. However, by tracking and managing their LCP, restaurant operators can stay informed about these changes and make strategic decisions to mitigate their impact on profitability.

Understanding demand and productivity

Tracking and managing LCP also allow operators to identify trends in customer demand and employee productivity, which can inform staffing decisions. Ensuring compliance with labour laws and regulations is equally important, as it helps operators avoid costly penalties and legal issues.

Failing to track and manage LCP can lead to missed opportunities to identify inefficiencies and reduce labour costs, resulting in decreased profitability and employee morale.

How technology can help

Fortunately, intuitive cloud-based restaurant technology can help you to stay on top of labour costs. Employees become more engaged and productive through time-saving tools – and customers can get better service. Revenue can increase without a sharp jump in LCP.

With the best solutions, executives and managers can access real-time data on all the aspects of the business that relate to LCP. When the numbers rise or fall, you'll understand why – and whether this is an understandable blip or an important trend. You can make key decisions with confidence.

Diligent tracking and management of LCP are essential practices that can make a significant difference in the success and sustainability of a restaurant. By avoiding common mistakes and staying proactive, restaurant operators can achieve their financial goals while maintaining excellent service standards.

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Discover more

Find out how forward-thinking restaurants are managing LCP successfully in new ways.

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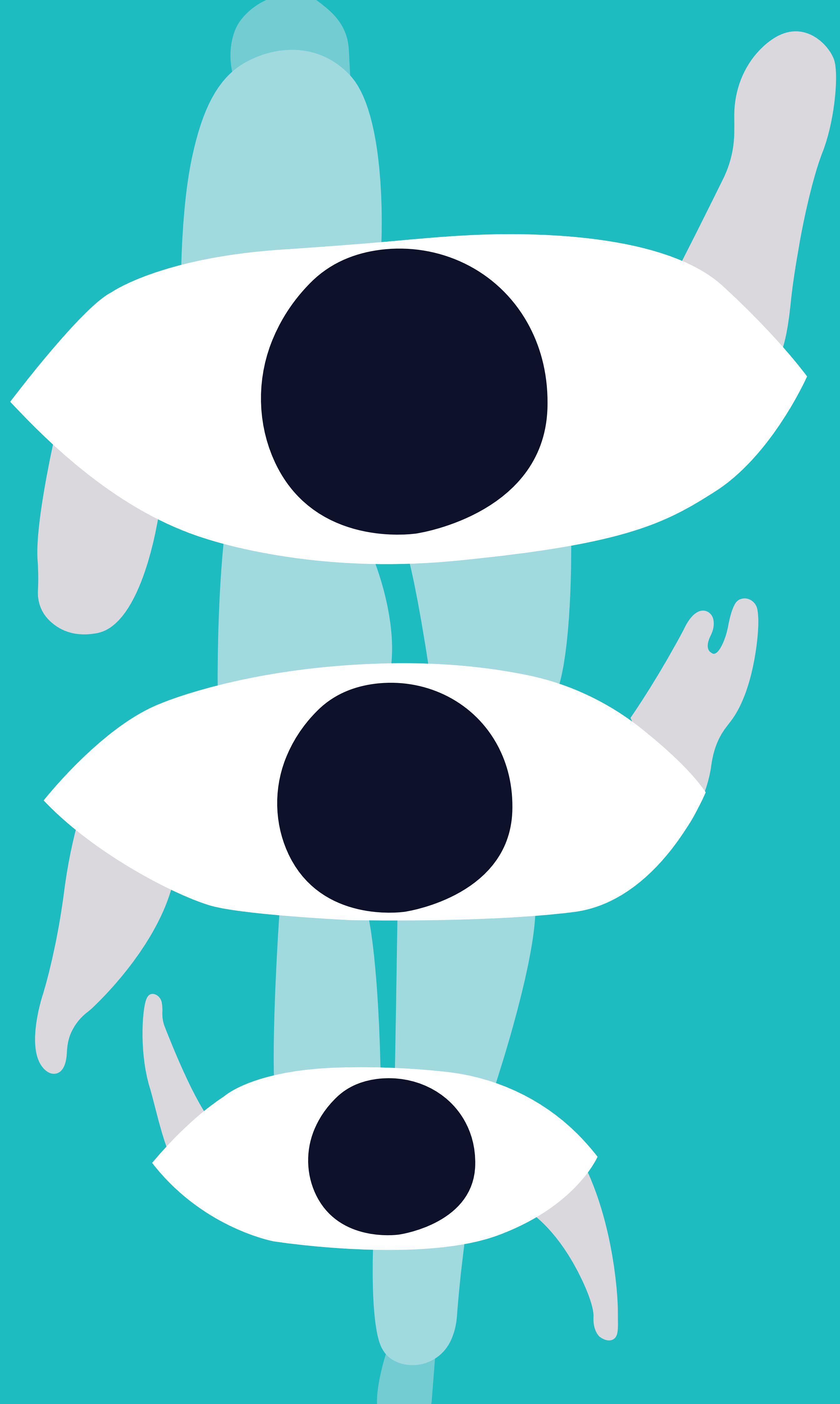

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