

Restructuring staffing to improve efficiency

More businesses are asking: “Are we overstaffing, or just under-performing?”



Until recently, if a food service operator wanted to save labor costs on a non-exempt employee working more than 40 hours per week, it could reclassify the employee as a manager or supervisor and pay him or her as a salaried worker. This was not necessarily a positive step for the employee, because the change in title also triggered exempt employee status—eliminating overtime. This practice is no longer viable as a cost-savings strategy under the Fair Labor Standards Act (FLSA) which went into effect in August 2004, *specifying that any employee making \$455 or more a week, or \$23,660 a year, be eligible for overtime pay.*

These new regulations have prompted many to examine their company's staffing structure, particularly as some practices that

previously may have been agreeable to exempt and non-exempt employees are no longer acceptable. For example, a non-management employee performing management duties such as scheduling, overseeing staff members, enforcing policies, or providing input in performance evaluations may now be seen as a liability to the operator.

Executive summary

The new Fair Labor Standards Act that went into effect in August 2004 serves as a catalyst for people-dependent businesses to review their staffs, and how they could function more efficiently.

Restructuring staffing is just one technique for improving performance.

Setting goals for service and revenue, and creating a plan for meeting these goals begins with analyzing existing staff duties, eliminating overlap, and ensuring that workers make the best use of their time via process, available technology, and outsourcing.

This change comes on the heels of a dramatic rise in the number of overtime lawsuits in recent years, especially in the retail industry. Retail companies that have not complied with the new FLSA regulations have exposed themselves to a great risk for high-profile class-action suits. For instance, a large fast-food company was recently charged with overtime violations, and settled the case for \$13 million.

“We are seeing food service and other customer-centered businesses focusing more on the productivity and functions of their employees since the new regulations,” says Florham Park, NJ-based Lynne Jacoby 📞, partner and national advisory leader for PricewaterhouseCoopers’ Private Company Services Food & Beverage industry practice. “The best results can be seen in businesses that seek opportunities to reduce labor costs by examining profitability of product lines, practices, and use of new technology.”

“Operational changes need to be balanced with an understanding of compliance aspects of the new Act, to make sure the company doesn’t expose itself to penalties or legal concerns,” says Boston’s Sari Rapkin 📞, partner and national assurance leader for PricewaterhouseCoopers’ Private Company Services Food & Beverage industry practice.

Setting realistic goals

Restructuring staffing is just one of the available opportunities for improving efficiency in an organization.

“The first step toward making a successful change is to determine a realistic fiscal goal, and implement the operational practices to meet it,” says Jacoby. “It all comes back to cost efficiency, but you will need to take the likely impact into account prior to making changes.”

The key is to think through possible changes and the full range of consequences. For example, if the goal is to reduce costs by \$200,000 a year, the next step is to ask: How should the business attain this goal? Should the company concentrate on an increase in revenues or a decrease in expenses, or a blend of both? If speeding up customer service is the answer for increasing revenues, how will the company achieve that? Will this necessitate adding an employee? Will purchasing hand-held ordering devices help to speed up order taking and transmission, and reduce labor needs? What would be the benefits of installing a self-order kiosk? And, what are related implications for staffing in the back of the house, to fill the orders? How would reducing labor in one section of the operation affect the others? Some businesses are seeking increased efficiency and lower labor costs by restructuring staffing to achieve the most-efficient ratio of management to hourly employees.

“The operator should also consider the impact of changes on both the employer’s share of Social Security taxes, and the unemployment tax rating,” notes Los Angeles-based Bill Stirton 📞, national tax leader for the Private Company Services Food & Beverage industry practice.

Outlining staff duties

Restructuring is not all about cutting labor. It is about deciding the most productive things employees should be doing.

Begin by outlining all employee duties, step by step, to identify overlapping job responsibilities and tasks. Review the things that the business needs to accomplish, and how it would meet those needs with as little overlap in staffing as possible—without compromising the customer experience. Be sure that employees have the right job descriptions, and that the job descriptions are designed to make the best use of their time.

“You might decide to outsource food preparation procedures and therefore eliminate a production position,” says Jacoby. “But, maybe through an effective cross-training program, hourly workers can fulfill multiple roles.”

“Before you start restructuring your staff, make sure that staffing is the issue,” observes Jacoby. “Don’t go for the quick fix. Think through where you are falling short, and what you want to accomplish. You may not be overstaffing; you might be *under-earning*.”

Assess before you address

Benchmarking with peers is a good source of industry staffing, productivity, and revenue trends. In addition, understanding the business life cycle of your market could help with anticipating changing labor needs and making the appropriate decisions. When possible, staffing issues may be alleviated by gearing up with more part-time employees, instead of adding additional full-time staff.

“Look at your percentage cost of labor as it relates to sales,” says Jacoby. “Based on your type of operation, personal history, and benchmarks in the industry, we can tell if there is a labor issue. In a casual restaurant chain, labor should be anywhere between 26 and 30 percent of sales. If a client is running above this, it would be beneficial to perform a workflow analysis to break down the tasks of each employee.” The goal of this analysis is to identify duplications and unnecessary activities within a task. A productivity chart may be created to track the contribution per individual, per hour, versus output goals. Such a *time value analysis* for all tasks within an operation could point to areas for outsourcing, technology assistance, or cross-training and reassigning of tasks to existing employees.

“Labor restructuring is an issue to be addressed in every industry,” says Jacoby. “How many people do you really need? What are they doing? How can outsourcing help? How can

technology help? It all comes down to task analysis. What is the productivity and revenue generated per individual?"

The goal is to meet business needs with as little overlap of staffing as possible, without compromising the customer experience. While eliminating one cook position might seem a quick way to save \$800 a week, the savings could be short lived. If the additional responsibilities are shifted onto other staff who cannot efficiently handle the increased workload, the money saved is at the expense of the customer, and could also decrease employee morale. And, diminished customer value perception from reduced quality of product or service may cause repeat visits to decline, hurting revenues.

Do not take labor at wage value. "Labor is a variable with hidden costs, such as workman's compensation, liability, and replacement training," says Jacoby. "In addition to the employer's share of Social Security taxes and the impact on the unemployment tax rating, payroll taxes and unemployment tax should also be considered when determining true labor costs. Look at how product choice and form of preparation are going to impact labor costs," she adds. "A restaurant might outsource menu items to lower the talent demand on the kitchen." Perhaps outsourcing some food preparation tasks, such as purchasing ready-to-use lettuce, prepared vegetable products, sauces, and soups can be a good cost-savings alternative. Procuring products which are partially or fully prepared can reduce labor costs and increase consistency.

"Be aware that as employees are added or subtracted, especially at the non-exempt employee level, workers' compensation rates tend to be the highest," observes Stirton. "Also, when making adjustments, don't overlook the overall effect of a change on potential loss experience. For example, there is more risk involved in having a worker handle a knife to chop lettuce, versus purchasing the lettuce already chopped."

Labor costs are dependent upon the level of service an establishment plans on providing. Quick service restaurants concentrate on moving customers through the line. Customers expect consistency, convenience and speed of service. Casual dining at chain restaurants is about providing an inviting environment that has quality food and attentive service, using brand recognition to attract clientele.

Technology could be used to capture information, such as ordering preferences, customer patterns, and special events, to better understand customers and, in turn, better attract and serve them.

In addition, advanced metrics and analyses could help an operator to better understand the business and, in turn, provide the appropriate labor force to meet its needs. For instance, measuring revenue-per-seat-hours-available allows operators to gauge business levels and adjust the staff-to-guest ratio.

The party size-mix—the percentage breakdown of party size to day-parts—helps the operator to develop an understanding of the party sizes their establishment attracts, and then adjust table sizes and staffing to meet guest needs.

And, a time study by meal parts, e.g., seat-to-greet, and greet-to-drinks, assists the operator in understanding how long certain aspects of the meal will take, therefore enabling adjustment of these times to better serve guests.

The food service industry, like retail, hotel, and other service oriented businesses, has a multitude of moving parts that make up the whole. Technology may represent one aspect, but ultimately it is people that make it work. Restructuring staffing may help to make the most of everyone's time and effort. ●

By Janice K. Mandel

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