

## A New Look At Labor Savings

By Dennis Monroe

Much has been written about the pressure on restaurants to contain its labor costs so as to counter the potential impact of the Affordable Health Care Act and the increase in minimum wages in various states. At this point, we have not seen the restaurant industry materially affected by these cost increases.

Most restaurant companies appear to be dealing with these challenges in an effective manner without resorting to price increases. The restaurant industry is resourceful and comes up with new solutions. Let me suggest options that may be helpful in what seems to be an eternal quest to keep ahead of labor costs and maintain profitability.

**Service Approach**—If you can develop a fast-casual approach to your concept or evolve it into more of a multi-service brand where you combine fast casual and full service, then you have flexibility to control your labor costs. That may not be possible in every case; but certain concepts like Buffalo Wild Wings and Famous Dave's have multiple approaches to how to deliver service (adopting both a fast-casual and full-casual models).

**Tip Credit States**—If you are a full-service multi-unit concept developer looking at expanding nationally, you may want to consider going into states that have a tip credit, because your overall labor costs will go down.

**Job Sharing**—It is helpful to promote job sharing. Example: You have an open position and two people want it. Even though it may not seem efficient, you might get more productivity per worker if they are given the benefit of job sharing.

**Overtime**—Look at the pluses and minuses of overtime. Most employers try to avoid it because of the higher hourly rate. But it may be cheaper in some cases to pay overtime than hire another person who is not fully utilized.

**Hire Seniors**—Seniors are not necessarily sensitive to the hourly wage and may be more reliable workers.

**Tax Credits**—You should consider some of the incentive tax credits, as they will lower your costs, particularly if you are working in disadvantaged areas.

**Scheduling**—Scheduling is a key element of controlling labor costs. Good scheduling software gives you a template for efficient scheduling which can lead to lower labor costs. Also, adopt a flexible approach to scheduling: If you have a number of units in the same geographical area, give your

employees the option to move from store to store. This may provide some advantages over tying each employee's schedule to a single location. You may be able to fill in the gaps by using multi-store scheduling.

**Cross-training**—It can help you save on labor and training costs. This means an employee who works in the front of the house can also serve in the back of the house.

**Servers can also be hosts**—This approach helps control overall training costs, as you are training one person to do two or more jobs. It also provides more hours for those workers, which makes them better employees.

**Exempt and Non-exempt**—We have gone through a lot of issues as to exempt and non-exempt status (and in the case of some positions, such as sous chefs, this status is up in the air). Try to keep as many employees exempt as possible. Review their job descriptions. If the person is exempt, you have no issue with overtime or some of the other wage-and-hour issues.

**Payroll Processing Costs**—Review them and look for the cheapest way to deal with payroll processing and HR costs. If you can efficiently process your payroll in-house, that's great; but in many cases, it is more efficient to outsource it. With three strong competitors in this space, you always have options to lower your price for payroll processing services.

**Worker's Comp**—Worker's compensation is a labor cost. Instituting safety programs is a key element to lowering them. Handle worker's compensation in an efficient and quick manner and keep good records.

**Discrimination and Sexual Harassment**—Discrimination and sexual harassment claims are issues similar to worker's compensation. Have strong anti-discrimination and harassment policies. And, when something happens, act quickly. This will lower both your cost and legal risk.

**Employee Incentives**—CohnReznick recently wrote an article on employee retention. Examining incentives and bonus programs, the article recommended paying quarterly bonuses. Too often bonuses are paid annually and semi-annually. If possible, it may even be good to pay monthly bonuses. Additionally, it is beneficial to have overall company incentive programs, such as some type of equity sharing (phantom equity). These incentives should create a lower turnover because employees will want to stay on to take advantage of these long-term programs.

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So, here are four major areas to review in regard to labor-cost control:

1. **Hire people** who fit into your culture and, if possible, can be cross-trained.
2. **How do you schedule people?** How do you create efficiencies in scheduling? How do you limit redundancy and overlaps?
3. **Protect your employees** as a valuable asset. Deal with worker's compensation, sexual harassment, discrimination and other kinds of workplace-related issues, trying to create the best work environment possible. This will result in significant labor-cost savings.

4. **Reduce turnover.** This is where incentives, culture and the company's flexibility with employees' lives come in. In the QSR industry in particular, by lowering turnover companies can more than compensate for higher minimum wages. The same holds true with casual, upscale and fine dining operations. If turnover is lowered, costs go down significantly.

*Dennis L. Monroe is a shareholder and chairman of Monroe Moxness Berg PA, a law firm specializing in multi-unit franchise finance, mergers and acquisitions and taxation. If you have other labor-cost saving ideas or questions for future articles, contact him at (952) 885-5999, or by email at [dmonroe@mmblawfirm.com](mailto:dmonroe@mmblawfirm.com).*