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Eight ways for restaurants to bring the labor challenge into focus for management and staff



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LABOR IS THE DAUNTING ISSUE in the restaurant industry right now. The increase in costs is inevitable, particularly with the actions by the state of Minnesota and the cities of Minneapolis and St. Paul. That being said, all is not lost. There are a number of things that can be done to control labor and to also put together a framework for the future.

One of the most holistic approaches that I've seen recently is what Hell's Kitchen did with their recent creation of an ESOP or Employee Stock Ownership Plan and then a sale of the business to the ESOP. This has some significant tax benefits and also can be a motivational approach to employees. We have been involved with ESOPs for other multi-unit retail companies and the one major issue that you sometimes have in selling to employee groups is that restaurants have such a significant turnover that it is hard to maintain the ESOP trust. However, the ESOP may also reduce turnover significantly.

Now let's look at some other things short of an ESOP that can be utilized.

Understand your Labor Component: Obviously the most important thing is to understand your labor component. There are a number of good software packages and also a number of experts around town who have put together various templates



for labor control. These are all helpful, but what I've found for the restaurant business is that development of your own template that monitors labor in the way that your staff feels comfortable with is probably the best approach. You can certainly use a respected software program, but it is still an individual process that is developed by your team to meet your special needs.

Cross-Training: One thing we're seeing is a flattening out of the management model for restaurants. Rather than having a general manager and several assistant managers, now you may have a person who is the general manager and then have hourly workers such as motivated servers and back of the house people who have a skillset for managing. These employees serve the role of either preparing food or service or, in some cases, working in the bar. Qualified employees can be utilized as management, therefore

you've, in effect, pulled out a layer of management and you have people who are doing more than one task. This approach of having people perform multiple roles, also provides flexible on any given day. One important note, however, is that the wage and hour laws must be followed for multi role employees.

Culture: One of the single biggest things I've seen to effect labor, particularly labor turnover, is company culture. You want every person in the restaurant to feel they are part of the success of the restaurant. This includes things like sharing summary information regarding the restaurant profit and loss each month. Discussion of financial matters shouldn't be done in a top-down process, but with input from all persons in the restaurant. The sharing of information and then having each person of the restaurant feel like a mini-controller, is really the key to success in today's world.

Clever Compensation Arrangements:

One of the things I've been seeing more often—and obviously the ultimate situation was the one referred to above, regarding the ESOP—is a profit-sharing approach. If you're sharing the financial information and the restaurant is performing well, it is important that there is some level of profit sharing. I like to see it on a quarterly basis versus annual. This can be somewhat tricky because as we all know, restaurants don't perform the same in each quarter. The sharing of some level of profitability of the restaurant is definitely a way of the future.

Employee Recognition: This, again, is something that's extremely culturally based. There should be a regular program of employee recognition and not just for the super producers but also all kinds of contributors. This improves the culture of the business and also gets people involved in helping each other to succeed. This is one area to brainstorm with employees on in order to find a recognition that is meaningful to them.

A Mentoring Program: No surprise, but service industry workers have evolving careers. They are musicians, artists, budding actors, writers, seniors,

or they could be, high school or college students. One of the benefits you can offer them is an active mentoring program. Ask some of your network if they would participate in a mentoring plan for your employees to help them figure out their artistic pathway. Employees who feel they have a future are better present workers

Communication: One of the biggest issues that restaurants have is effectively communicating with their staff, particularly as it relates to hours. You are obviously trying to reduce your labor to the right percentages, but that is sometimes easier said than done. You need to understand the expectations of the hourly employees. How many hours do they expect to work? What are their needs? Sometimes those needs and requirements aren't predictable. There needs to be an open culture of scheduling employees. This will improve your labor cost and contribute to a cooperative culture.

Tax Elements: There are still tax advantages as it relates to labor. We still have the targeted jobs tax credit for restaurants that open in disadvantaged areas, and now have "opportunity zones," which provide tax advantages for investment in lower income areas. In all

cases, this involves getting tax advantages and providing jobs. We still have the FICA tip credit for federal purposes even though we don't have a tip credit in Minnesota. This credit gives a deduction for the portion of the FICA paid on tips and that is a significant credit for the owners of the restaurant and not something to be overlooked.

These are just a few basic ideas to get you started on the creative path to solving your local staffing problem, but labor needs to be looked at globally. It's a big picture problem, but the main point I would like to make is that right now we have to have an inclusive approach, particularly with the generations that are staffing our restaurants in today's world.

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