

LABOR

Labor expenses are a major consideration in planning and controlling food service expenses. With increases continuing in the minimum wage rate, labor will continue to be a major expense.

There are TWO MAJOR FACTORS that determine labor costs:

- 1. TIME TO COMPLETE A JOB, and**
- 2. THE RATE OF PAY**

OTHER FACTORS INCLUDE:

- the type of menu offered**
- type of service (self-serve) and hours of operation**
- layout of the facility**
- number of meats served**
- current wage rate**
- amount of employee turnover**
- productivity of employees**
- employee benefits**
- training program**
- amount of supervision**
- employee morale**
- skill of employees**

There are many hidden expenses on an hourly basis per employee. The following is a list of additional expenses on an hourly basis for a minimum wage (\$6.75 per hour) employee.

LABOR INFORMATION:

FICA	.516
SUI	.23
FUTA	.54
Workers Comp. Insurance for cafeteria	.624
Meals	.25
Snack at Break time	.18
Breaks (2 at 15 min.)	.105
Vacation (one week)	.10
Sick time (7 days)	<u>.10</u>
	2.64
Plus	
Hourly Rate	<u>6.75</u>
Actual Cost per Hour	9.39

Let's discuss some of the factors affecting labor cost.

EMPLOYEE TURNOVER: This is one of the greatest costs you will incur. This includes break-in costs such as substandard performance while learning, and time lost by supervisors as they train new workers. Unemployment costs, social security expenses, and extra bookkeeping are all additional expenses.

A manager should look at WHY employees leave. You should look at the interview and hiring process including the applicant's work record, qualification and references.

If employees do not know or UNDERSTAND THEIR JOB and COMPANY EXPECTATIONS, then misunderstandings, poor performance, and eventually turnover will result.

POOR SUPERVISION is also a cause for turnover. You may need to look at how you are managing your employees, or NOT managing your employees. Are you giving them proper orientation and training, and getting feedback?

WORKING CONDITIONS affects turnover. Do you promote a positive work environment?

Is your equipment in good working condition? Do you take care of repairs immediately? Do you have the proper tools or utensils for the employees to do their job? Is there proper lighting or work space? What about temperature and ventilation? Is there a clear, open communication channel between you and your employees? Do you listen to their concerns.

Another factor affecting labor costs is ABSENTEEISM. If an employee is chronically absent, it affects the customer, other employees and you. It creates low morale, and should be dealt with according to rules you establish in your policy handbook. The most common causes are:

- Job related problems (poor morale, supervision, working conditions)**
- Community related problems (poor transportation, lack of child care, etc.)**
- Personal problems (illness, alcoholism, family responsibilities, psychological problems)**

OVERTIME: Unauthorized and uncontrolled, this will quickly create high labor expenses. If you find that your employee or employees are consistently working beyond their scheduled hours, you should determine why.

- **What is the work habits of the employee? Is he or she organized? Clean as you go? Productive during slack sales time? Take breaks or lunch as authorized by manager?**
- **Does this employee know their job?**
- **Is the employee doing unnecessary tasks?**
- **Are they communicating with you?**

PRODUCTIVITY OF EMPLOYEES: Employees will do a more thorough and quick job if they know what is expected of them, and if you utilize **CHECKLISTS**. The use of checklists takes the guesswork out of job completion. It will also cut down on the amount of time employees spend asking you questions, and waiting for you to give them direction.

Checklists can be developed for opening or closing, cleaning, training, etc. Ask your employees for input in developing checklists. Checklists will also help you, as the manager, to do a better job following up on your employees. It can also give you an opportunity to praise employees for a job well done!

EMPLOYEE MORALE: If your employees have positive attitudes and enjoy their job, they will generally be more productive than employees with negative attitudes. You can have a direct affect on your employees by the way you talk and treat them. Create a good working environment by having open two-way communications. Ask for feedback and ideas. Recognize employees for doing a good job. Say "Thank You" and "Please". Remember, "Praise in public, criticize in private".

Employee morale can be improved by giving them rewards (pay raises, bonuses, fringe benefits, recognition such as Employee of the Month, etc.) and by asking employees for input about the scope of their job responsibilities.

The single most important factor in improving productivity and morale is **MANAGEMENT COMMITMENT**. If you, as the manager, believe that employees can improve performance and productivity, **THEN IT CAN BE ACHIEVED**.

LABOR COSTS

Labor costs are generally the second highest controllable expense in a food service operation.

GROSS WAGES are calculated by multiplying the employee's hourly rate of pay times the number of hours worked. i.e., $7.25 \times 8 = \$58.00$ in gross wages.

You are required to pay Social Security Tax on your spouse's wages, but you **DO NOT** pay unemployment tax on a spouse.

SOCIAL SECURITY TAX (FICA): As an employer, you are required to deduct Social Security Tax from your employee's gross wages. You will also match this same amount. The current rate is 7.65 percent or .0765. (Social Security Tax - 6.25 plus Medicare 1.45 = 7.65)

Example:

- Gross wages x FICA factor = FICA amount
- Employee gross wages = \$150.00
- Employee FICA = $\$150.00 \times .0765 = \11.48
- Employer F.I.C.A. = $\$150.00 \times .0765 = \11.48

UNEMPLOYMENT TAX: You are required to pay both Federal and State Unemployment Tax on employee gross wages. This does not include spouse wages. The Federal rate is .8 percent or .008. The beginning State rate for new food services is 3.4 percent or .034. The State Unemployment rate will be reviewed after your first six quarters of being an employer. It will then be reviewed annually. The rate will be adjusted either up or down depending on charge backs charged to your account.

State Unemployment Tax can be abbreviated by using the acronym SUI. Federal Unemployment Tax can be abbreviated by using the acronym FUTA.

Example:

- **Gross wages x unemployment factor = unemployment amount.**
- **Employee gross wages = \$150.00**
- **SUI Tax = \$150.00 x .0334 = \$5.10**
- **FUTA Tax = \$150.00 x .008 = \$1.20**
- **Total unemployment tax = \$6.45**

To compute total labor costs, you must include employee gross wages plus employer's match of FICA plus Federal and State Unemployment Taxes.

Example: Gross Wages	\$150.00
FICA	+11.48
SUI/FUTA	<u>6.30</u>
Total Labor Cost	\$167.78

Once you calculate the total labor cost, you will then want to compute the labor cost percentage. This is the cost of labor in relation to net sales. You can compute this amount for any period of time such as daily, weekly, monthly, or yearly. The formula for labor cost percent is total labor cost divided by net sales.

Example: Total labor cost (day) \$167.78 divided by daily net sales of \$833.65 = .20 or 20 percent

PROJECTING LABOR COSTS: Labor cost percentages in our food service operations average between 24 percent to 40 percent. Your actual cost will be dependent on the factors listed previously such as layout, employee productivity, etc.

Let's use 20 percent as a labor cost goal and we will compute how much we can spend on labor. This figure includes payroll taxes.

To calculate labor dollars, take net sales times labor cost percent goal.

Example: Daily net sales of \$1000.00 x .20 = \$200.00. This means you can spend \$200.00 on labor for a \$1000.00 day to run 20 percent labor for the day.

SCHEDULING HOURS: Once you know how much you can spend on labor, you must then calculate how many hours of labor you can schedule per day. Follow the steps below:

- 1. Calculate your employees average hourly pay:**
Employee #1 is paid \$6.75 per hour
Employee #2 is paid \$7.50 per hour
Employee #3 is paid \$7.25 per hour
Employee #4 is paid \$6.25 per hour
(California minimum wage \$6.75 hr.)
Add up the four hourly rates, which equals \$27.75.
Divide \$27.75 by 4. This equals \$6.94, the average hourly rate.
- 2. At 20 percent labor cost you could spend \$200.00 on labor for a \$1000.00 net sales day. To calculate how many hours you can schedule, divide \$200.00**

by \$6.94, which is the average hourly rate. This equals 28.8 hours.

3. To figure out how many hours each employee can work, divide 28.8 hours by 4, which is the number of employees you have. This equals 7.20 hours each. It is advisable not to schedule each employee for more than eight hours.
4. Now you can plan a work schedule. Be sure to consider your hourly sales trends, opening/closing, prep procedures and other needs.

Your hours of operation are 7:00 a.m. to 3:00 p.m. The following would be one possible schedule:

Cook, Employee #1

6:00 a.m. to 1:30 p.m. = 7.5 hours

Server, Employee #2

7:00 a.m. to 2:00 p.m. = 7.5 hours

Cashier, Employee #3

8:00 a.m. to 4:00 p.m. = 8 hours

Dishwasher Employee #4= 5 Hours

This would allow one hour for set up and one hour for closing clean up.

Let's calculate actual labor costs:

Employee #1,	7.5 hrs. @ \$6.75 hr. = \$ 50.62
Employee #2,	7.5 hrs. @ \$7.50 hr. = \$ 56.25
Employee #3,	8 hrs. @ \$7.25 hr. = \$58.00
Employee#4	5 hrs @ \$6.75 hr.= \$33.75

Total gross wages	\$198.62
Employer match of FICA (SS)	= + 15.19
Unemployment, SUI & FUTA	<u>+ 8.54</u>
Total Labor Cost	= \$222.65

\$222.65 divided by \$1000.00 net sales equals 22 percent labor.

WORK SCHEDULES AND TIME SHEETS:

After calculation of your labor cost goals and operational needs, you will need to complete a work schedule and post it for your employees.

If there are any changes needed on the schedule, both the manager and employee should put their initials next to the change.

Time sheets should be kept for each employee. They should fill in their actual hours worked each day. You should verify that they are correct and match the work schedule.

Wage Record Keeping Requirements

Employers are required to maintain an accurate record of employees' hours of work and compensation. Failure to do so will impose upon the employer the burden to disprove what an employee claims to have been his/her actual work hours. The basic record keeping obligation includes the employee's:

- Name**
- Home Address**
- Date of Birth (if under 18)**
- Occupation in which employed**
- The clock time when work period and off duty meal period begins and ends**
- Total wages and other compensation paid during each payroll period**
- Total hours worked in each payroll period and applicable rates of pay; and**
- The number of piece-rate units and any applicable piece rate paid**

IMPLICATION OF FAILURE TO MAINTAIN REQUIRED RECORDS

The chief danger to an employee in failing to maintain adequate or accurate work records is that, in a dispute, the employee's testimony as to their hours worked generally will be credited in the absence of accurate records of such work. The courts and

agencies administering wage/hour laws believe the employer can hardly complain about this consequence because it easily could have been avoided by accurate record keeping.

MILITARY TIME: To convert hours worked to military time:

1:00 a.m.	-	0100 hours
2:00 a.m.	-	0200 hours
3:00 a.m.	-	0300 hours, etc. until
12:00 p.m.	-	1200 hours

Beginning with 1:00 p.m., you will add the HOUR time of day to 1200 hours (noon). For example, 1:00 p.m. is 1300 hours and 2:00 p.m. is 1400 hours in military time. This same format is used through 12:00 a.m. (midnight), which is 2400 hours. To determine how many hours were worked, let's look at the following example:

Jerry worked from 6:00 a.m. to 1:40 p.m.

- 1. Look at the ending time, 1:40 p.m. Convert 40 minutes to a decimal. 40 divided by 60 equals .67.**
- 2. Convert 1:00 p.m. to military time, 1300 hours.**
- 3. Add the minutes and hours together; 1:40 p.m. is 13.67 hours.**
- 4. Look at the beginning time, 6:00 a.m. In military time, this is 0600 hours.**
- 5. Subtract the beginning time from the ending time; 13.67 minus 06.00 equals 7.67 hours.**

Jerry worked 7.67 hours.

CALCULATING EMPLOYEE PAY: Your employees must be paid for all hours and minutes worked! The following is an example of how to calculate an employee's net pay.

Your employee worked 36 hours and 17 minutes and makes \$8.25 per hour.

- 1. Convert the minutes into a decimal portion of an hour. Divide 17 minutes by 60 minutes. Round to two decimal places. This equals .28.**
- 2. Add .28 minutes to 36 hours = 36.28 hours.**
- 3. Multiply 36.28 hours by \$8.25 (hourly rate of pay). This equals \$299.31.**

The \$299.31 can be referred to as:

- Gross Wages, Regular Earnings, or Total Earnings.**

Now that you have the gross wages calculated, you can now compute the FICA Tax, SDI and Withholding Tax. These taxes will be deducted from the employee's gross wages to determine net pay.

Use the current rate for the employee's share of FICA & SDI. To determine the Withholding Tax you will have to refer to the W-4 Form to find out whether the employee is single or married, and how many exemptions are claimed.

IRS "CIRCULAR E" is used to determine the amount of Withholding Tax to deduct from gross wages. Be sure to use the current "Circular E".

STATE PERSONAL INCOME TAX (PIT) WITHHOLDING GUIDE is used to determine the amount of withholding to deduct from gross wages. Use the current PIT guide.

Use .0765 as the current employee amount of FICA. If your employee is single with one dependent, the withholding amount is approximately \$10.00. The following is an example of determining net pay:

Gross Wages	\$299.31	
FICA		- 22.90
SDI		- 2.69
Withholding		<u>- 10.00</u>
Net pay		\$263.72

You would pay your employee \$263.72 in net pay.

PAYROLL RECORDS: Employees should be paid by check. This provides you with a permanent record of payment.

Once again, Wage and Hour Law requires that employers provide each employee with written record of all deductions from an employee's gross wages. Information must include:

- Name of employee
- Rate of pay
- Total amount of pay earned during the pay period

- **Deductions made from the employee's pay and the purpose of the deduction, i.e. FICA, Withholding**
 - **Amount of pay after deductions are made**
 - **Total number of hours worked if the employee is paid on an hourly basis.**
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- **An employer cannot withhold any part of an employee's wages unless the employer: (a) is authorized to do so by a court of competent jurisdiction; (b) authorized by State or Federal law; or (c) has written authorization from the employee to deduct a part of the wages for a lawful purpose. Employers should pay close attention to item (c) because it has broad implications, including, but not limited to deductions for loans, labor standards, etc. The law does not allow wage claims to be filed for vacation pay, sick leave pay, or severance pay unless it is owed to an employee by a written agreement or under a written policy of the employer.**
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- **An employee who is absent on a payday, or who for any other reason is not paid on that day, must be paid on a regular business day at the employee's request.**
 - **An employee who is discharged from employment must be paid in full immediately upon discharge.**

- **An employee who leaves employment other than by discharge must be paid in full within 72 hours unless a 72 hour notice is given and then upon leaving.**
- **An employer may deliver wages paid to a person that is designated by the employee in writing or may deliver the wages to the employee by reasonable means requested by the employee in writing.**

MINIMUM WAGE: Effective January 1, 2002 the State of California minimum wage went to \$6.75 per hour and September 1, 1997 Federal minimum wage went from \$5.00 to \$5.15.

You are required by law to maintain a record of each employee's earnings. You should retain employee records for three years.

REQUIRED FORMS

FORM 941. EMPLOYER'S QUARTERLY FEDERAL TAX RETURN. Used to report the amount of withholding tax and social security tax due on employee wages. It is due on or before the last day of the month following the close of each calendar quarter. Generally, you must deposit the tax with an

authorized financial institution or a federal reserve bank with the use of Federal Tax Deposit Form #8109.

If the total tax is less than \$500.00, you may send the payment directly to the IRS when you file the return. If the payment is \$500.00 or more deposit by the 16th of the following month.

FORM 940EZ. EMPLOYER'S ANNUAL FEDERAL UNEMPLOYMENT TAX RETURN. The tax rate is .8 percent for the year. It is computed quarterly. If the amount is \$100.00 or less, it can be deposited with the form by January 31st.

If more than \$100.00, it must be deposited in an authorized depository or a federal reserve bank. The deposit must be made by the last day of the month following the end of the quarter in which the accumulated amount exceeds \$100.00.

FORM 8109. FEDERAL TAX DEPOSIT COUPON. Used for depositing FUTA, FICA and Federal Withholding.

FORM W-4. EMPLOYEE'S WITHHOLDING ALLOWANCE CERTIFICATE. Must be completed by employee on the first day of work. Information includes social security number, marital status, number of dependents. This information is required in order to withhold the proper amount of money for income tax reporting.

FORM I-9. EMPLOYMENT ELIGIBILITY VERIFICATION.

Required by federal law to prove citizenship and/or eligibility to work in the U.S. Must retain in the employee's file for three years after date of hire or one year after the date of employment termination. Must be completed within the first three days of employment.

Acceptable forms of identification and employment eligibility:

- **United States Passport**
- **Certification of U.S. Citizenship**
- **Certification of Naturalization**
- **Valid Foreign Passport with Attached Employment Authorization**
- **Alien Registration Card with photograph.**

The following are documents that establish identity:

- **A state issued driver's license with a photograph**
- **U. S. Military Card**

They can be used in conjunction with the following documents that establish employment eligibility:

- **Original Social Security Card**
- **Birth Certificate**
- **Valid INS Employment Authorization**

Staffing and Scheduling

Learning Objectives

1. Distinguish the difference between fixed labor and variable labor.
2. Distinguish between staffing and scheduling.
3. Prepare a Duty Statement.
4. Differentiate between block and staggered scheduling.
5. Determine appropriate staffing levels using standard staffing requirements and sales forecast.
6. Appreciate the difficulties in scheduling in foodservice operations.
7. Explain the seven steps involved in scheduling process.

Staffing entails the determination of the appropriate number of workers needed for the operation's work that has to be accomplished.

Scheduling entails having the proper number of workers on duty as determined by staffing needs.

Scheduling is the assigning of employees to specific working hours and workdays. One goal in scheduling is having enough staff for the handling of busy meal periods without having excess help in the slower periods between meals. Advance preparation or using branded prepared foods can help achieve this goal.

Employees should do as much advanced preparation work as possible during the slow period so they will not have to perform it during the peak meal periods. The menu can be changed for large-volume days to eliminate time-consuming food items. For example a restaurant in a university town finds itself swamped after a football game. It discards its regular diversified menu and serves only roast beef, which requires little effort in the kitchen during the serving period. Some operations use convenience food to reduce the labor demand during the busiest period.

Care should be taken to see that employees are not scheduled before they are needed. It is a rare foodservice operation where all employees are needed at the same time; staggered times of starting and stopping may do much to increase productivity and help to reduce labor cost.

The Importance of Scheduling

Probably the most important factor in controlling labor costs in most operations is scheduling of workers. In addition to excessive labor cost, poor scheduling has other implications. Besides possibly affecting quality, having too few workers can make workers resentful about being overworked or can be the cause for excessive overtime.

Scheduling too many workers can have worker dissatisfied because they are not kept busy or they may enjoy the low level of work needed from them and resent it when work returns to a normal level.

Difficulties in Foodservice Scheduling

The foodservice industry presents some unusual problems in scheduling. If an operator has three meal periods, it is usually impossible to cover all three-meal periods with one shift, yet the hours between breakfast and supper do not lend themselves to two full shifts. There also are peaks and

valleys of activities during a shift, not the steady production of an industrial production line.

The level of expected activity may or may not be certain. It is difficult to forecast, in some operations, how much or how little business may happen on a future day. Changes in the weather or other factors beyond the operator's control may change the best forecast.

A foodservice operation cannot generally produce inventory and release inventory when needed. If personnel are on hand but there is not enough business for them, their efforts cannot be stored for another time. It may also be difficult to determine what scheduling is necessary for the optimum level of service or quality. In other words, determining how many should be on hand at one time can be a problem since the levels of goods and poor service have a qualitative aspect that are not well defined.

Fixed and Variable Labor

This is one area you must fully understand. Your staff will be either fixed or variable.

A **fixed** cost personnel is a person that must fill a position whether you have 1 customer or 100 customers. A position not effected by the volume of your business. An example would be the cashier; you need one full time cashier whether you have 1 customer or 100.

A **variable** employee would be a staff that you schedule around your busy periods. A position effected by the volume of your business. As you became busier you would call for more support; this support would be your variable staff. On Monday you are slow, so you manage with one full time fixed cashier. On Tuesday there is a training session in the building where you have your facility. You will now ask your part time cashier to come in and work the lunch rush, you may even ask for two variable cashiers to work.

The key thing to remember is, fixed staff is any position that you will need to open your doors. Variable staff is any position that you schedule for your busy periods and cut the hours or send home during your slow periods.

Schedule Patterns

There are two basic schedule patterns. One is block or stacked scheduling where shifts start and stop at the same time. A block schedule would go like this:

John	6am to 2pm
Betty	6am to 2pm
Patty	6am to 2pm
Becky	2pm to 10pm
Henry	2pm to 10pm
Tom	2pm to 10pm

The other method is staggered scheduling, where employee's schedules correspond to the work patterns. The following would be an example of a staggered schedule.

John	6am to 1:30
Betty	6am to 1:30
Patty	11am to 6pm

Becky 11am to 6pm
Henry 3pm to 11pm

In this example it would be possible to cover the workstation with five employees rather than six by using staggered scheduling. Staggered scheduling, makes it possible to save considerable labor time and cost since most foodservice operation do not have a uniform volume of activity throughout the day.

Although the more inefficient, block scheduling have some advantages. It is easier to check that everyone is present and on time. It is also easier to give common information to everyone at once. Employees may also prefer to start and stop together.

The Scheduling Process:

- 1. Develop daily duties for each employee (sample included with this handout)**
- 2. Forecast the levels of activities**
- 3. Determine the number of personnel or hours needed according to forecast and work production standard.**
- 4. Consideration of employee time requests and factors that management considers important, such as the number of experienced worker, rotation, wage rates or legal considerations such as hours for minors.**
- 5. Making up a schedule.**
- 6. Distribution to affected employees.**
- 7. Review of scheduled and actual performance after the time periods.**

Duty Statement

I encourage everyone to have a duty statement for all position. The duty statement should detail activities with a time frame. A brief example:

6:00 am, clock in

6:00-6:30, prepare potato products for breakfast

6:30-6:45 prepare breakfast meat

1:30 begin clean up.....list the cleaning procedure in detail for the closing shift position.

Work Schedules and Time Sheets

You will need to complete a work schedule and post it for your employees.

If there are changes needed on the schedule, both the manager and the employee should put their initials next to the changes.

Time sheets should be kept for each employee. They should record their actual hours worked each day. You should verify that the time sheets are correct and match the posted work schedule.

Net Sales Needed for Hiring

The following chart can be used as a guideline for projecting how many employees you can hire knowing your daily sales. The hourly wage will include your employee contribution for taxes. What I mean and what I wish to stress is that the employee you are paying \$6.75 an hour actually cost you \$7.56 an hour after adding in your federal and state tax contribution.

“Golden Rule” food cost plus labor should never exceed 75% of the net sales. If labor is too high, then food cost must be lowered to accommodate the “Golden Rule”.

**40% Food cost
35% Labor**

**45% Food Cost
30% Labor**

**50% Food Cost
25% Labor**

Net Sales Needed for Hiring for a Projected 35% Labor

Number of Employees	Hourly Wage	Hourly Wage w/tax	Daily Wage	Monthly Wage	Daily Sales	Monthly Sales
1	6.25	6.99	55.97	1231.45	159.91	3518.02
2	12.50	13.99	111.95	2462.90	319.85	7036.85