Nation's Restaurant News

fourth

STATE OF THE MARKET

Staffing Concerns in Restaurant Operations

Operators face staffing challenges, and say technology can help.

Table of Contents

Executive Summary

Staffing issues have long been top of mind for restaurant operators. While some of the issues remain the same, such as recruitment and retention, employee onboarding and training, and increased labor costs, operators are looking for new, technologically advanced ways to solve these challenges.

Nation's Restaurant News and Fourth set out to gain insight into what are the most important staffing concerns among restaurant operators, and what solutions do they plan to implement to optimize business performance. While survey respondents agreed, they face ongoing challenges, they also noted that some high-profile topics are not as troublesome as they might have thought.

Among the Key Findings:

- Competition for labor in a tight market, not new minimum wage laws, was the top challenge for operators.
- Operators have an array of strategies that help them address the increase in labor costs.
- Among the top tactics were technology integration, including system integration and collaboration.

In May 2018 Informa Engage conducted the email survey and collected and analyzed the data on behalf of Nation's Restaurant News. The respondents were decision-makers from casual dining restaurants, fast casual, family dining, and upscale/polished casual, and represented independents and chains.

What is Driving Increased Labor Costs

As expected, operators said they are battling increased labor costs. According to the U.S. Bureau of Labor Statistics, (BLS), in March 2018 the average hourly wage for all foodservice employees was $14.45, compared to $13.89 in March 2017 and $13.26 in March 2016.

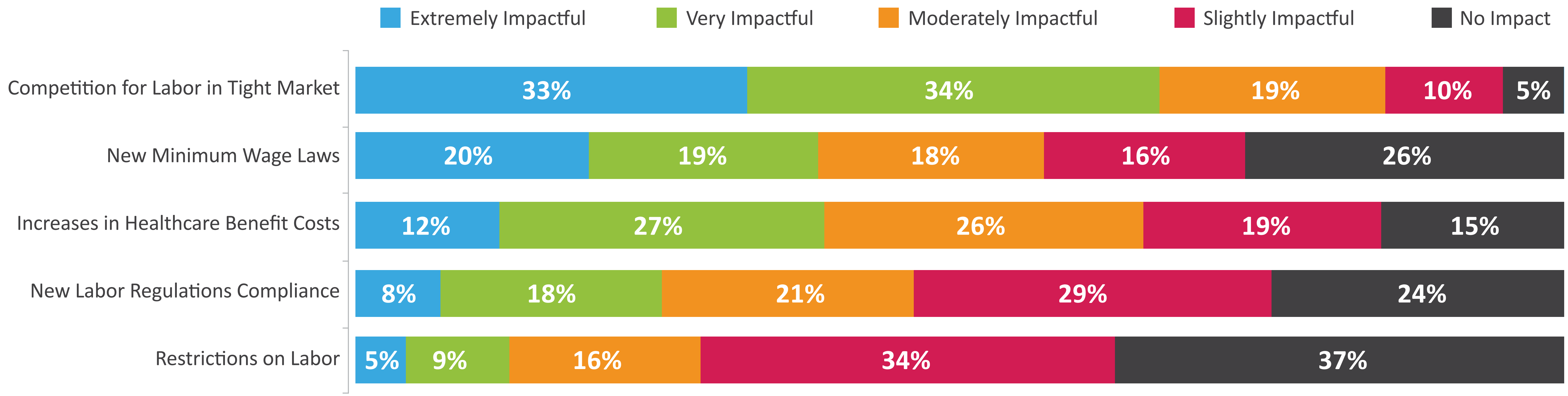
What was less predictable was which factors operators thought were driving the rise in labor costs. Respondents pointed to competition for labor in a tight market as the biggest factor, with 67% indicating this was extremely or very impactful. Workers do have their choice in jobs: also, according to the BLS, the unemployment rate in May 2018 was 3.8%.

Meanwhile new minimum wage laws, while garnering media attention lately, were less of an issue. Only 39% of respondents said these rules were extremely or very impactful. According to the Economic Policy Institute, in January 2018, 18 states increased their minimum wage, and the increases ranged from $0.35 in Michigan to $1.00 in Maine. Some states have small increases that will take effect over time.

Another controversial topic, healthcare benefit costs, was cited by only 39% of operators as being extremely or very impactful. The low percentage could mean that operators have successfully found ways to implement the Affordable Care Act, or that the rules about offering employees minimum coverage, low cost health insurance turned out to be not as onerous as expected.

Factors Driving Increased Labor Costs

Base: All respondents (n=240)



Turnover

Employee turnover is pervasive in the restaurant industry. According to the National Restaurant Association, citing BLS figures, the overall turnover rate in the restaurants-and-accommodations sector (the BLS does not report data for restaurants separately) was 72.9% in 2016. That figure was a combination of the quits rate of 53.5%, plus the layoffs-and-discharges rate of 16.7%, plus other separations such as retirements, transfers, deaths, and separations due to disability, which comprised 2.7% of the sector's turnover rate in 2016. The total was up slightly from a rate of 72.2% in 2015.

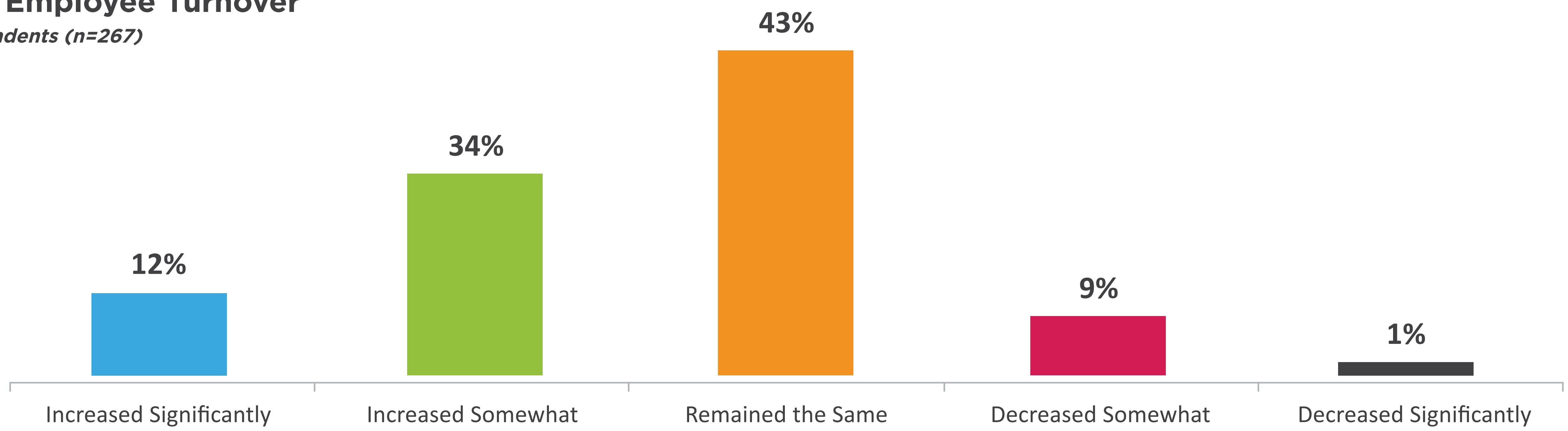
In the NRN and Fourth survey, nearly half the operators, or 46% said their turnover increased either significantly or somewhat over the past year. Almost the same amount, 43%, said their turnover rate remained the same. Few operators were immune to the challenge of retaining employees, as only 10% said their turnover decreased somewhat or significantly.

While the survey did not ask operators what contributed to their turnover rates, the BLS noted staffing is often seasonal for foodservice businesses. The NRA pointed to the fact that many foodservice workers are teenagers, who typically do not work full year schedules, or who eventually move on to different jobs as they launch their careers.

Turnover can be expensive. In 2016 the Harvard Business Review, citing figures from the Center for American Progress, noted that it costs approximately 20% of the departing employee's salary to replace the worker. Those expenses include advertising the job opening, paying other workers overtime to fill in for the departing worker, and lost productivity by the person who knows they are leaving.

Change in Employee Turnover

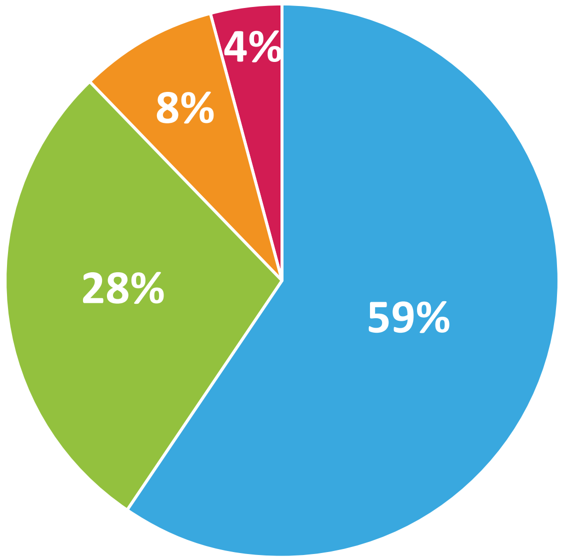
Base: All respondents (n=267)



Primary Recruitment and Retention Challenge

Those departing employees must be replaced, and operators said some workers are more difficult to find than others. Back of the house workers were especially difficult to find, with 59% of respondents saying kitchen staff was the primary recruitment and retention challenge. A distant second was front of the house with 28% of operators citing those workers. Only 8% of operators said they had trouble finding other workers. Corporate jobs were relatively easy to fill, with only 4% of respondents saying they had trouble finding these workers.

Some operators commented that they were having trouble filling jobs that were not easily categorized as front or back of the house. Several operators wrote "delivery" as a category in which they were having trouble finding workers. This is a growing area in foodservice, so operators have to compete with non-restaurant companies such as GrubHub and DoorDash to find drivers. According to the self-reported salaries on Glassdoor, the average annual salary for a foodservice delivery driver is $25,942. That includes drivers for catering companies, pizza delivery, and third party services.



The Most Challenging Areas to Recruit and Retain Job Candidates

Base: All respondents (n=268)

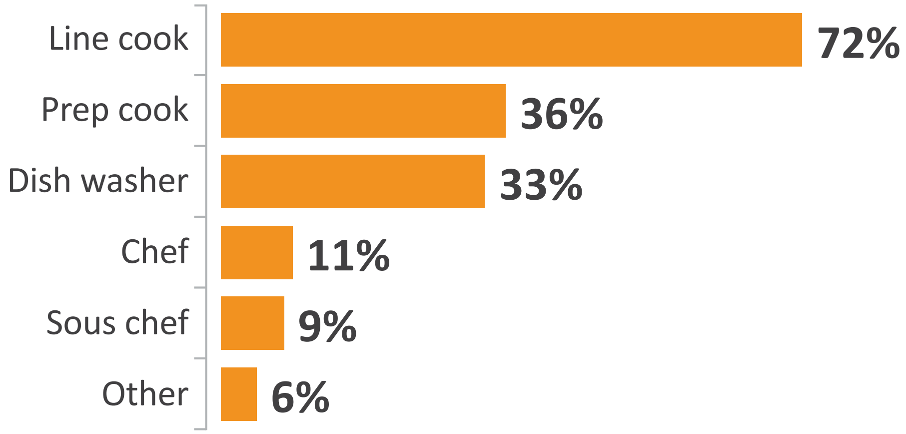
- Back of House
- Front of House
- Other
- Corporate/Regional

Key Hiring Challenges: Specific Roles

While delivery is not ubiquitous to the restaurant business, cooking is. Every operator needs to find kitchen staff, and many of these back of the house workers are hard to find. Respondents reported the most difficulty finding line cook candidates (72%), followed by prep cooks (36%) and dish washers (33%).

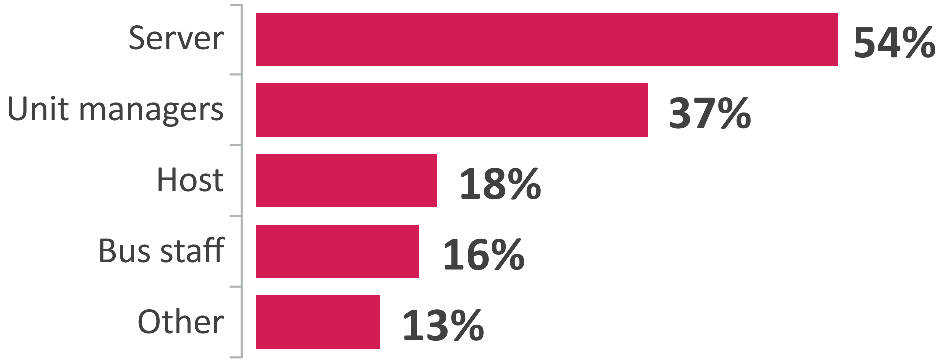
Back of the House Hiring Difficulties

Base: All respondents (n=257). Multiple answers allowed.



Front of the House Hiring Difficulties

Base: All respondents (n=248). Multiple answers allowed.



They had little trouble finding chefs (11%) or sous chefs (9%). There is a large pool of these workers, as many culinary schools now are preparing these professionals. Also, one factor that makes it easier to attract chefs is they earn a higher salary than some other foodservice workers. According to the BLS, in 2017 the median pay for chefs or head cooks was $45,950 per year, $22.09 per hour.

In the front of the house, finding servers proved most challenging (54%), followed by unit managers (37%). In 2017 waiters and waitresses, the job description that the BLS uses instead of servers, earned a median of $20,820 per year, $10.01 per hour.

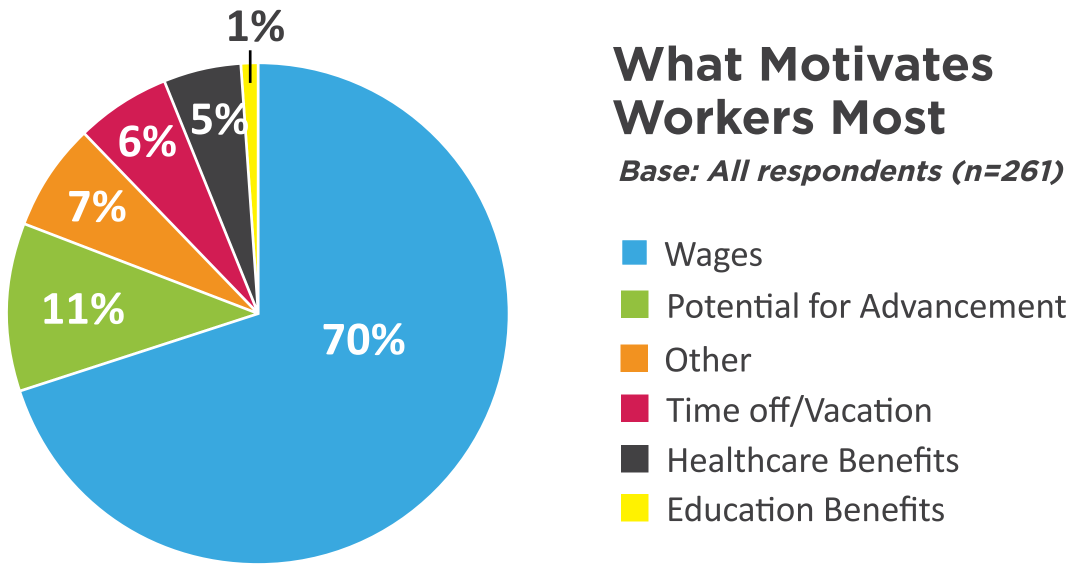
Respondents also commented on other jobs not on the list. These write-in jobs included bartender, cashier, and, presumably because of the delivery phenomenon, phone operators that handle carryout and delivery orders.

Motivating Workers

In a theme that resonates with wage earners but is debated among social scientists, money can motivate workers. The vast majority of respondents, 70%, said wages provide the most influential factor in motivating employees.

What does not motivate employees is the ability to get ahead in the company. Only 11% of operators said the potential for advancement motivates their employees. Some operators wrote what keeps their staffers engaged: culture, flexibility of what hours to work, not working Sunday nights, and "cheerleading." One very frank operator wrote, "We wish we knew."

While money cannot buy the operator loyalty, or buy the worker happiness, it can alleviate certain stresses that most workers have these days. According to the American Psychological Association (APA), in its 2017 iteration of its annual Stress in America survey, money, which was cited by 62% of that survey's respondents, and work, cited by 61%, were among the top sources of stress. (Respondents could choose more than one answer.) While "future of the nation" was the top vote getter with 63% of people saying that kept them up at night, only 57% said "political climate" topped their list of stressors.



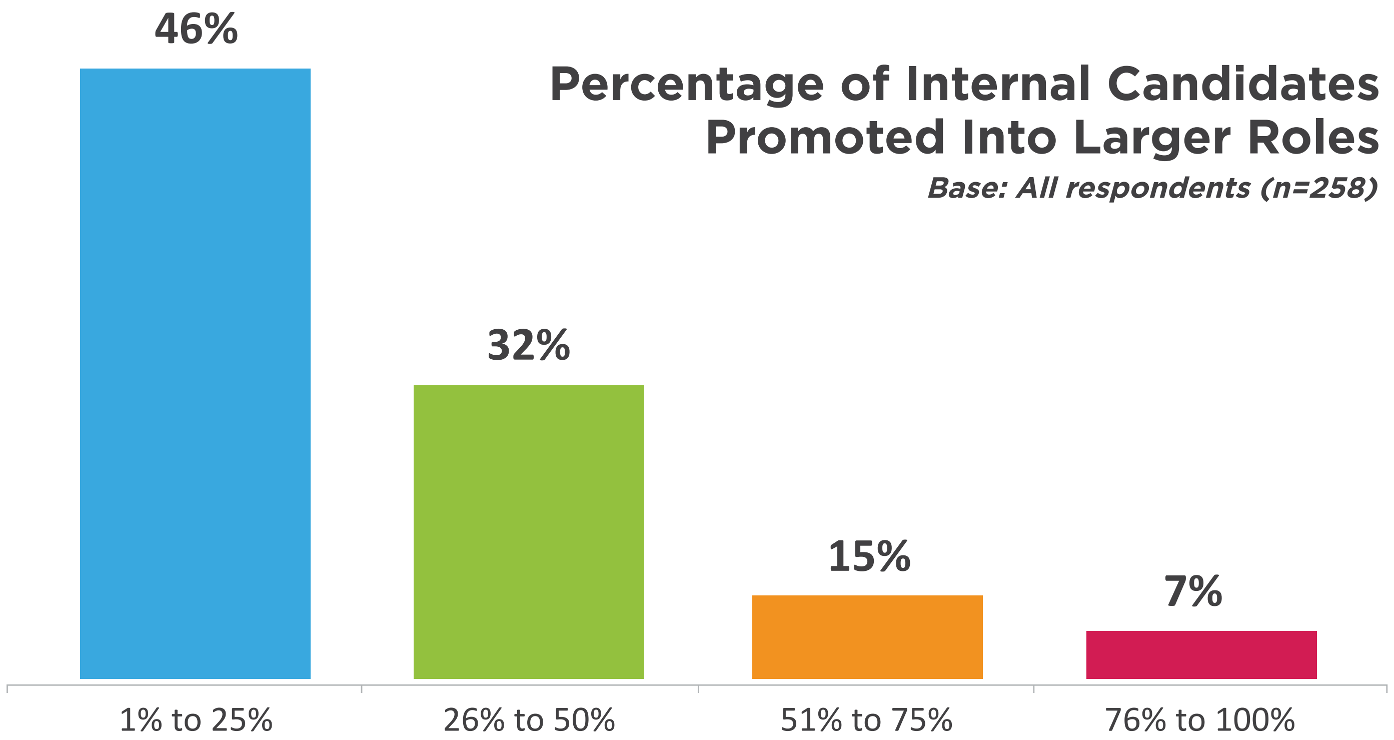
Operators have to pay attention to wages not only when it comes to hiring, but also in reducing turnover. According to a 2016 Gallup report, 44% of employees said they would consider taking a job with a different company for a raise of 20% or less. For a foodservice worker earning $10 an hour, that would be a raise of $2 or less.

Promoting Workers

It might be just as well that employees are not looking to get promoted, because promoting internal candidates to larger roles is somewhat uncommon. About half (46%) of respondents said they promote up to 25% of current employees. Only 32% said they promote 26% to 50% of their employees, and 22% said they promote more than half their employees.

The industry is full of stories about line cooks that became executive chefs, dishwashers that became franchisees, and teens that rose through the ranks and became foodservice executives. In general, though, operators that do promote from within are limited by the number of jobs higher up on the hierarchy. There is presumably a large staff of hourly workers for every manager, so there are only occasional opportunities for advancement.

Also, the opportunities are often taken by high-performing individuals from other businesses. The National Restaurant Association reported that in 2016, one in five job openings were filled by people who were promoted from other jobs within the same restaurant business. Family-dining and casual-dining segments were only slightly ahead of the others at 22 percent. "The restaurant industry has long been the primary training ground for new entrants to the workforce," NRA wrote in a press release. "In fact, roughly one-third of all U.S. adults say their first job experience was in the restaurant and foodservice industry, according to NRA research."



New Employee Training and Onboarding

One misconception about foodservice jobs is that managers do not like to train hourly workers because they think the person will soon leave that employer for another job. In that scenario, not only did the trainer waste time, but the worker can impart the new knowledge on a competitor.

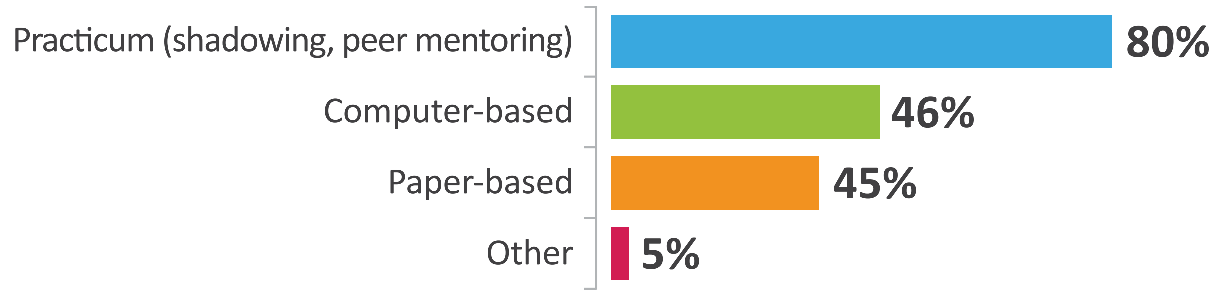
Not so with the employers in this survey. Respondents said they do indeed spend time training new employees. In fact, 50% of respondents said they allocate more than 16 hours, or two full workdays, for new employee onboarding and training. A full 30% dedicate 8 to 16 hours, and only 20% say they spend less than 8 hours.

The most common method for training was Practicum, which includes shadowing and peer mentoring, mentioned by 80% of respondents. Second was computer-based, by 46%, and paper-based, by 45%. (Respondents could mention more than one method.)

Other formats, cited by 5% included on-the-job training, classroom style, introductions to people to know, and tastings, seminars, and trade events. A few said they do "all of the above," and one mentioned that they only train managers, not hourly workers.

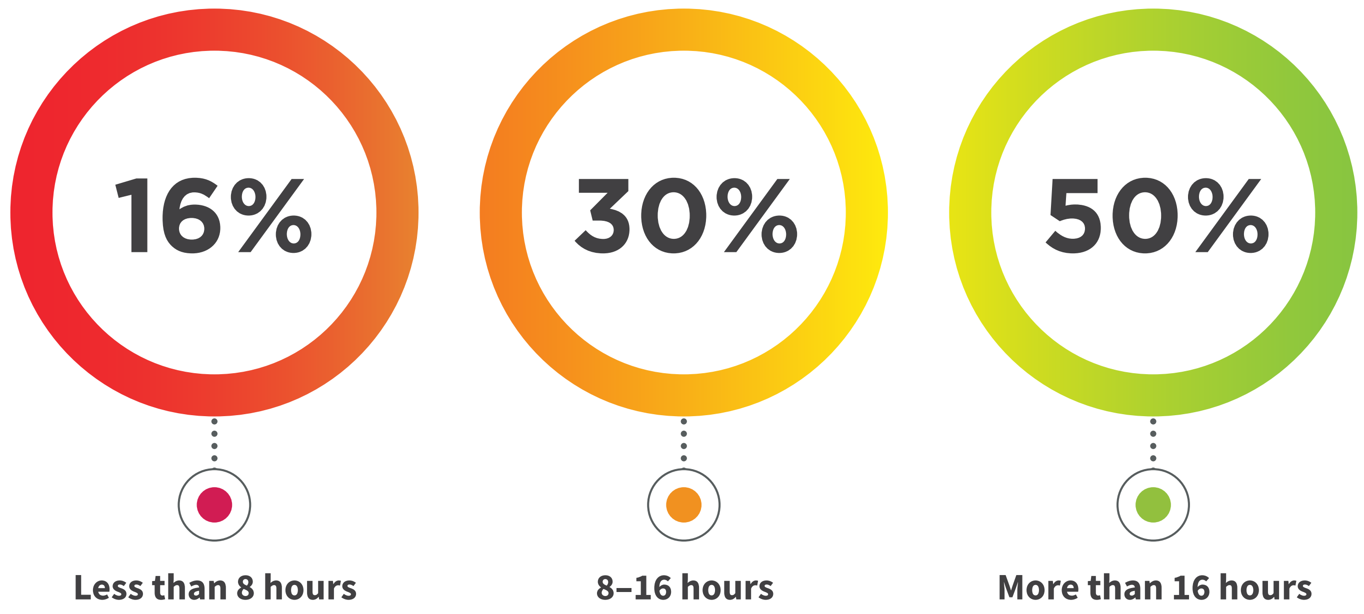
Conducting New Employee Onboarding and Training

Base: All qualified respondents (n=258). Multiple answers allowed.



Time Allocated for New Employee Onboarding and Training

Base: All respondents (n=261)

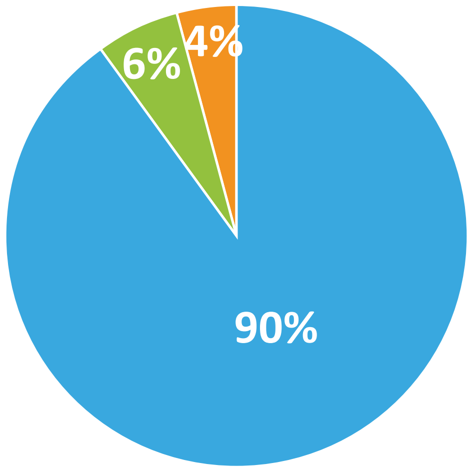


Workplace Harassment, Risk Management and Safety Training

Even if they do not teach how to use the point of sale system or what's in the newest menu items, foodservice employers do teach staff members about topical issues, such as workplace harassment. Whether because it's a hot button subject or because they've always taught these topics, restaurant professionals say they are making sure workers know how to behave in a way that does not compromise safety or cause legal risks to the establishment.

Nearly all (90%) respondents report their operations have a written policy on workplace harassment, and an additional 6% said they will soon have a policy. The remaining 4%, seemingly unaware of the risks of potential lawsuits by employees, say they have no policy and no plans to institute a policy.

Workplace harassment includes sexual harassment, a matter that has been in the news lately. A recent study by Stop Street Harassment, conducted by the research company GfK, found that nationwide, 81% of women and 43% of men reported experiencing some form of sexual harassment and/or assault in their lifetime.



Written Policies on Workplace Harassment Present

Base: All respondents (n=256)

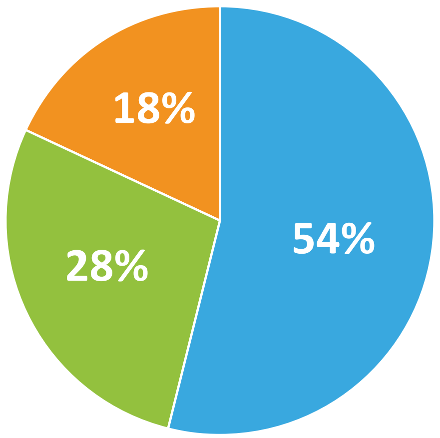
- Yes
- No, but plan to implement written policies within next 18 months
- No, and no immediate plans to implement

Workplace Harassment, Risk Management and Safety Training

When asked how they conduct risk management and safety training, half (54%) of respondents reported their operations rely on written guidebooks, and 28% use computer-based instruction. Some operators mentioned combinations of these, such as "face to face" training, or "classroom," or "classes by third party vendor."

Some states and municipalities mandate sexual harassment training. Earlier this year New York State and New York City enacted laws that require employers to provide sexual harassment training. In California, state law AB1825, which became effective in 2007, mandates sexual harassment training for any employee who performs supervisory functions within a company of 50 employees or more. Maine and Connecticut were the earliest to adopt mandatory sexual harassment training, with laws that passed in the 1990s.

Certain entities are making it easier to conduct the training. This year the National Restaurant Association announced it was adding sexual harassment training to its ServSafe program. The new program, ServSafe Workplace, is available through free webinars.



Conducting Risk Management and Safety Training

Base: All respondents (n=251)

- Written Guidebook
- Computer Based Instructions
- Other

Impact of Immigration Enforcement

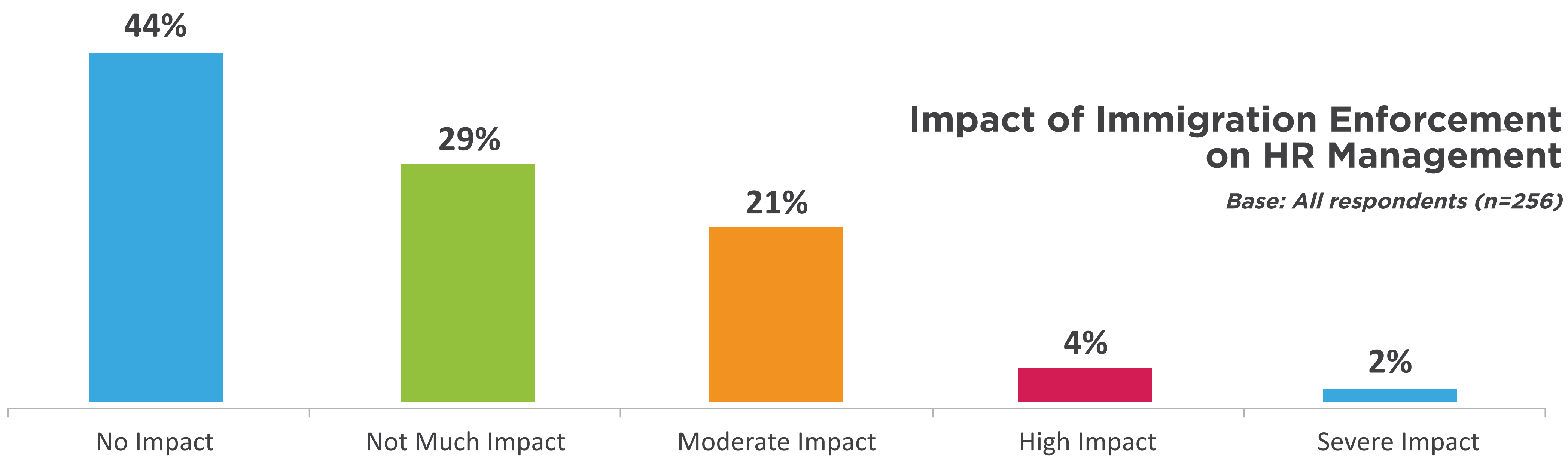
Immigration is a hot topic in the foodservice industry. Here are some statistics from the BLS, from its May 2018 report, "Foreign-Born Workers: Labor Force Characteristics – 2017."

- In 2017, there were 27.4 million foreign-born persons (including legally admitted and unauthorized) in the U.S. labor force, comprising 17.1 percent of the total.
- Foreign-born workers were more likely than native-born workers to be employed in service occupations, less likely to be in management and professional.
- The median usual weekly earnings of foreign-born full-time wage and salary workers were $730 in 2017, compared with $885 for their native-born counterparts.

Operators are not worried about changes in laws that might affect these workers. A majority of respondents (73%) report little to no impact of immigration enforcement on their HR management.

That means they are not thinking about possible stricter enforcement of the Immigration and Nationality Act (INA), changes to employment-based immigration such as H-1B visas, or proposed changes to the Deferred Action for Childhood Arrivals (DACA).

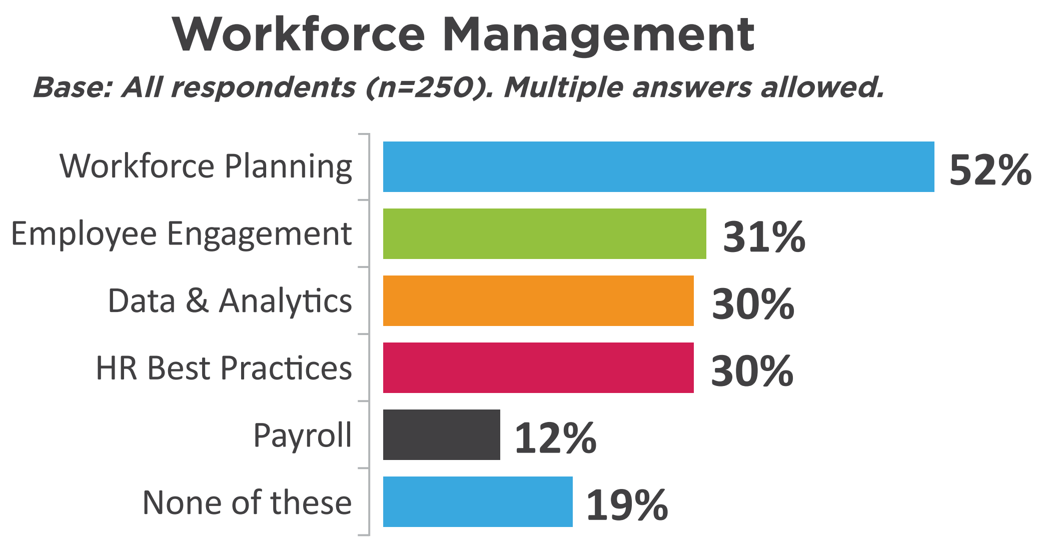
An example of immigration enforcement would be an I-9 audit. Since the Immigration Reform and Control Act of 1986, employers must have new employees, within three days of hire, fill out an Employment Eligibility Verification Form I-9. According to U.S. Immigration and Customs Enforcement (ICE), an I-9 audit is not required by law, but an employer may conduct an internal audit, in which they choose to review all or a sample of I-9 forms to see if there are errors or omissions.



Optimizing Business Performance: Operational Focus Areas

Instead of waiting to see what happens with legislation, a changing workforce, and other factors, operators are taking a proactive approach. When asked which operational areas they were planning to address within the next two years to optimize their business, respondents said they were likely to focus on workforce management, specifically workforce planning (52%) and employee engagement (31%). (Respondents were able to select more than one option.)

Workforce planning refers to the use of software to forecast how much staff will be needed, and getting the right workers scheduled at the right place at the right times. This is a complex task that goes beyond deciding how many people should staff a particular shift. The right technology can help an operator forecast, with a high rate of accuracy, future demand, and also integrate other details such as attendance and wages.



Employee engagement means keeping the best employees motivated and loyal. Technology can help, as employees that communicate with each other and with management feel more involved and engaged with a brand. Some operators do this with an intranet, or by posting messages on social media, or by directly communicating with employees on their own devices, so that they can get information when they are looking up their pay statements or checking their schedules.

Optimizing Business Performance: Operational Focus Areas

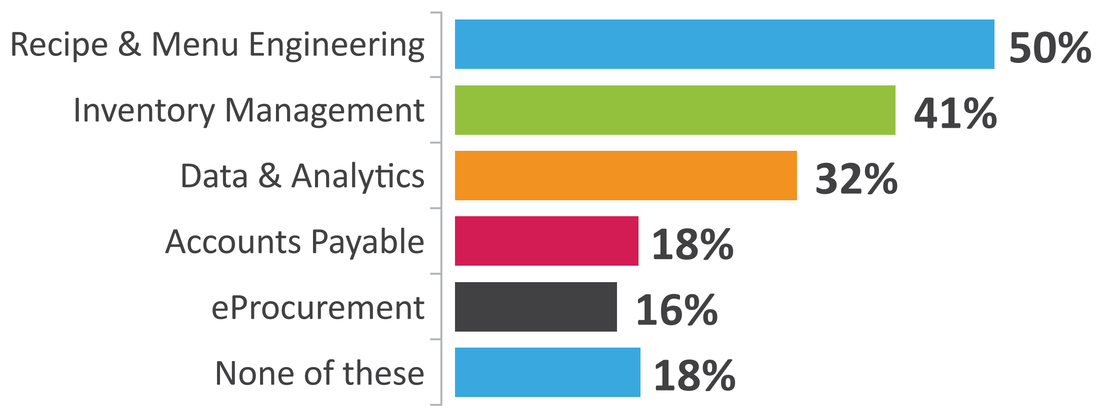
Operators are also looking to Purchase-to-Pay and Inventory, specifically recipe and menu engineering (50%), and inventory management (41%). (Respondents were able to select more than one option.)

Recipe and menu engineering refers to the process of assembling a menu. That includes not only developing delicious recipes but also determining the right prices for the menu items by taking into account portion size, margins, and food costs. These days operators have to consider allergens, fluctuating vendor prices, and seasonal ingredients, when planning menus.

Inventory management sounds straightforward but again, it can be complex. No one likes the consequences of over-ordering or under-ordering, and the right inventory control software can be much more powerful than glancing in the freezer to see what's left.

Purchase-To-Pay & Inventory

Base: All respondents (n=250). Multiple answers allowed.



Technology Drivers: Transforming Business Operations

Operators recognize that technology can help with many of these workforce goals, and some have plans to invest in high-tech solutions. No single technology emerged as dominant with regard to transforming business operations. The most commonly mentioned potential drivers include system integration (50%), collaboration (46%) and analytics and reporting (42%).

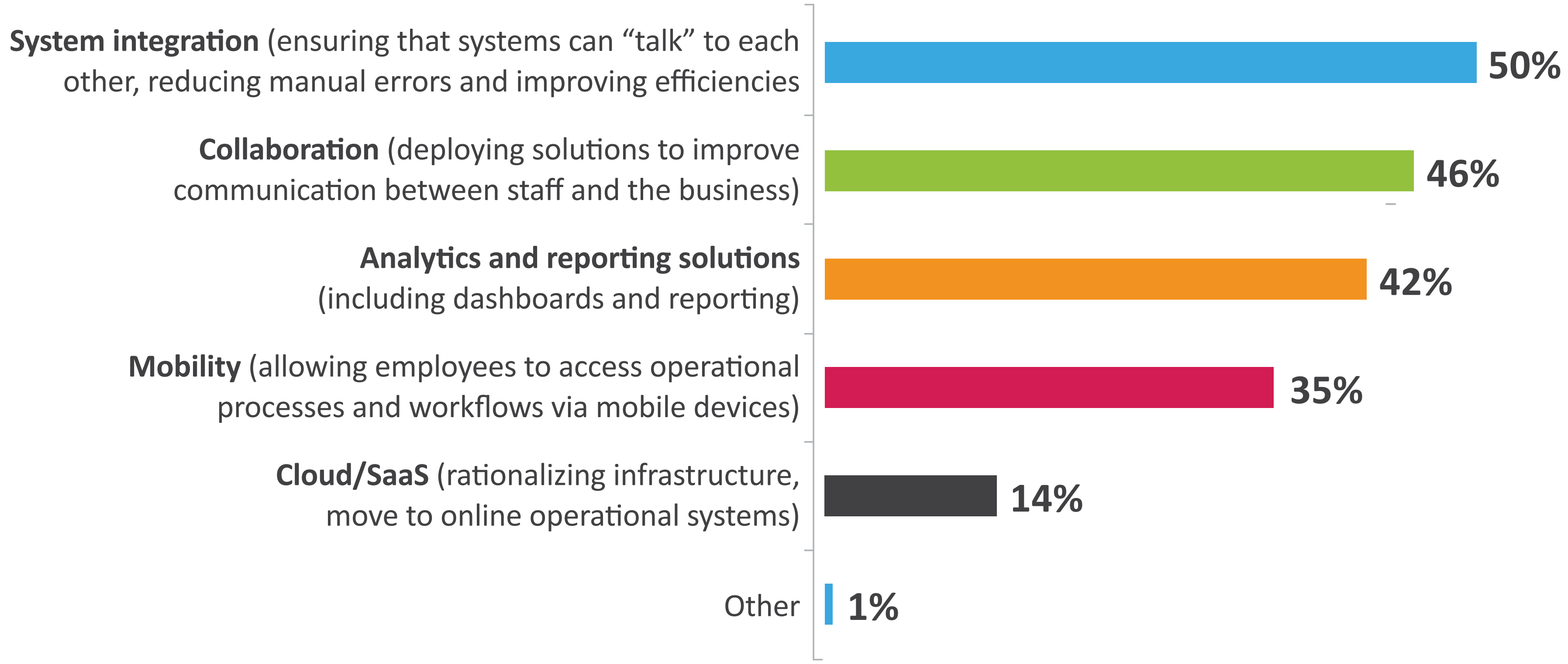
System integration refers to ensuring that systems can "talk" to each other, because the data is sent directly from one system to another (for example, from operations to finance) instead of having a person manually input the information. That reduces errors and improves efficiencies.

Collaboration in this context means deploying solutions such as direct messaging, instant updates, and other tools to improve communication within the business. Collaboration can help improve workflow by triggering tasks and notifications in sequence in a multi-step process.

Analytics and reporting solutions refers to the ability to take large amounts of information and presenting it in an easy-to-read way for easier decision making. For example, instead of trying to analyze columns in a spreadsheet, the user can look at an interactive dashboard that displays sleek graphics for revenue, cost of sales, labor costs, and profits, all on a smartphone screen.

Main Technology Drivers That Help Transform Business Operations

Base: All respondents (n=241). Multiple answers allowed.



Addressing Increasing Labor Costs

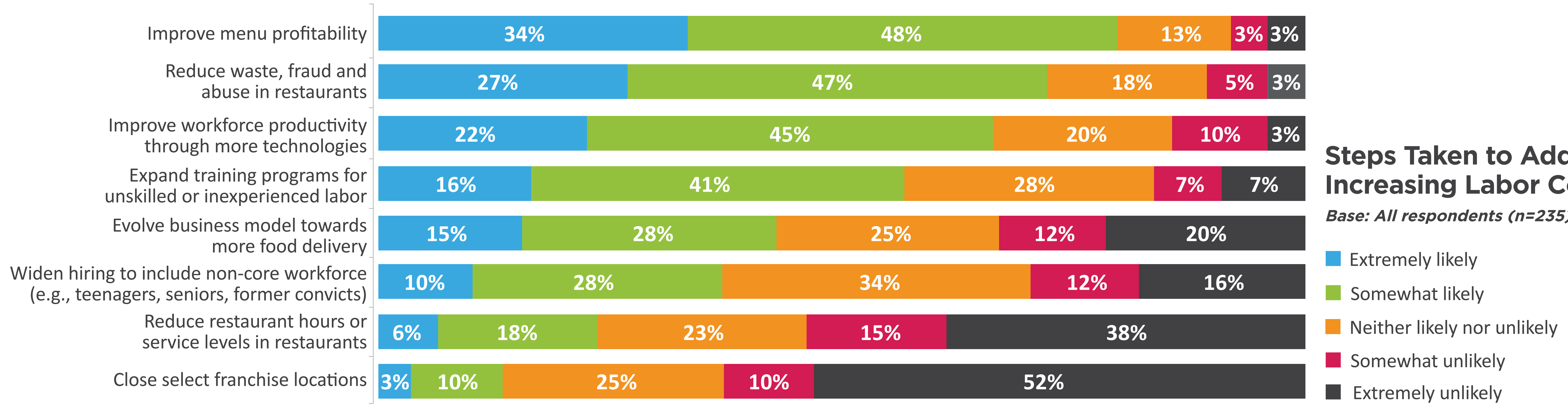
To offset the rise in labor costs, operators say they are taking certain steps. The most common solution among respondents is to focus on improving menu profitability, which 82% of respondent said they are extremely likely or somewhat likely to do.

The second biggest strategy for countering increased costs is to reduce waste, fraud and abuse in the restaurants, and 74% said they were likely to focus on this. Food waste alone accounts for billions of dollars of losses. According the hunger relief group Feeding America, 72 billion pounds of otherwise usable food ends up in landfills and incinerators each year.

Ranked third, but still a high percentage, was improving workforce productivity through technology. Two-thirds (67%) of respondents said that is the way to address increased labor costs.

Among the less likely strategies were to expand training for unskilled or inexperienced labor (57%), perhaps because of the high rates of turnover. Also low on the list was expanding the business model to include delivery, a move that seems counter to recent news. Nation's Restaurant News reported in June 2017 that "More than 80 percent of publicly traded restaurant chains, not counting pizza chains that already deliver, are at least testing delivery at the moment — based on an analysis of company earnings calls and announcements."

Operators are least likely to reduce hours or service levels (24% likely) or close select franchise locations (13% likely). These moves might backfire, as customer service is an important factor in consumer decisions regarding where to eat. Also, while there have been some restaurant chains announcing closures (Ruby Tuesday, Zoe's, Teavana) some companies have announced they were closing some U.S. stores while opening overseas locations (Subway).



Steps Taken to Address Increasing Labor Costs

Base: All respondents (n=235)

Service Included or No-Tipping Model

One thing respondents will not do is try a service included or no-tipping model, with 66% saying they will not consider it.

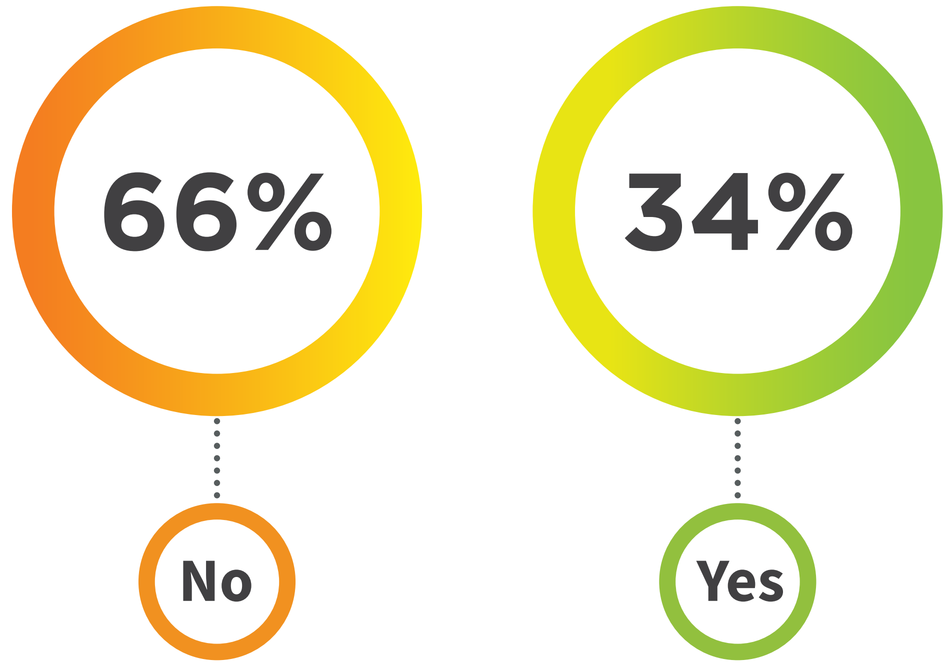
Union Square Hospitality Group announced it was switching to a hospitality included model, and as of last year maintained that the model is working. Other less well-known restaurants have also tried it, but it is not an industry-wide phenomenon.

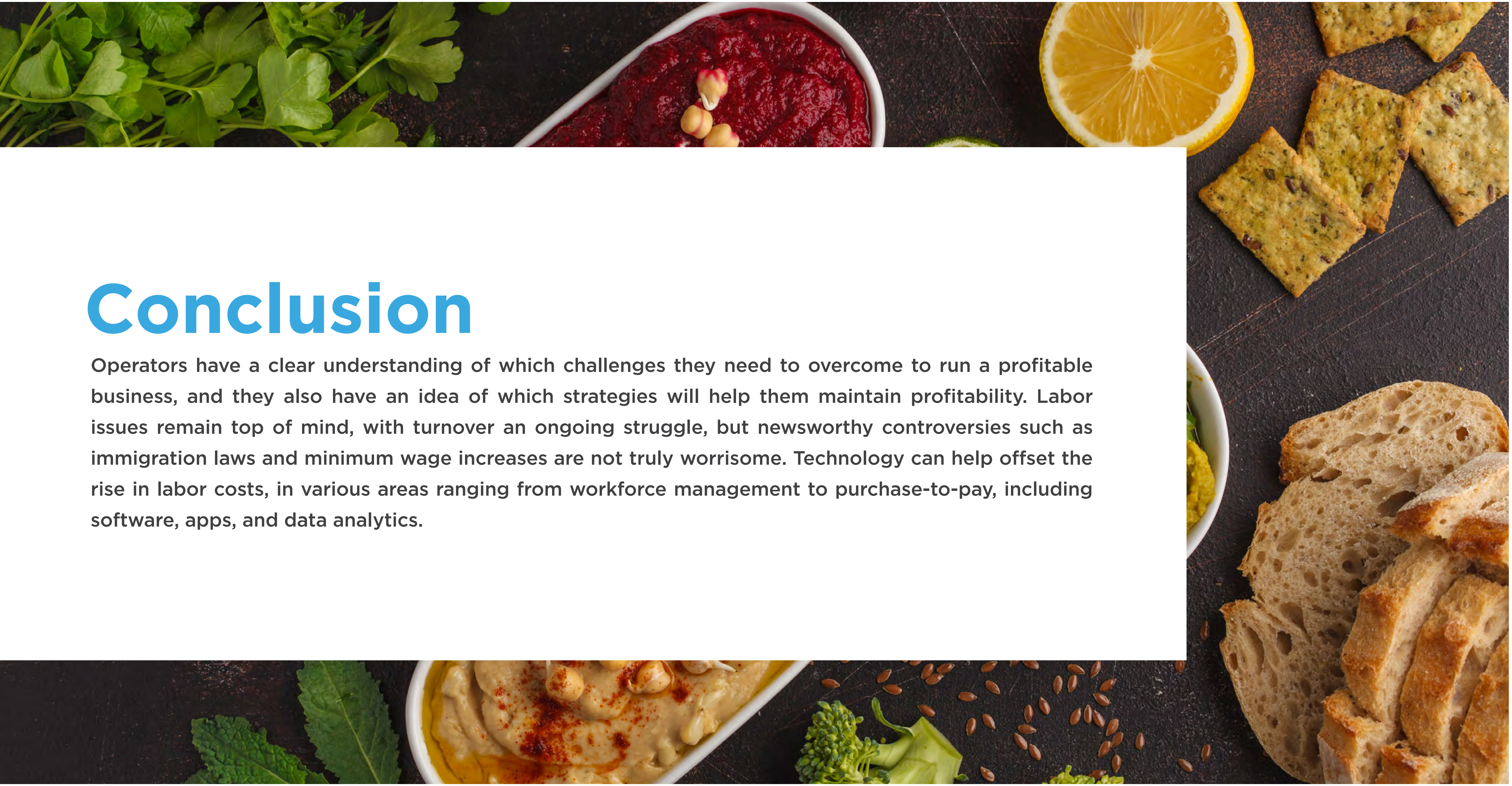
Switching to a hospitality-included model is cumbersome, even controversial, as it entails reeducating consumers about not tipping, raising menu prices to reflect the inclusion of the service charge, and recalculating wages for front of the house and back of the house workers. States have different laws about pooling tips and allocating tips, making the process more complex.

As far as the survey respondents seemed to be concerned, the no-tip model is not something that would help the operator improve profitability.

Those Who Would Consider a Service Included or No-Tipping Model

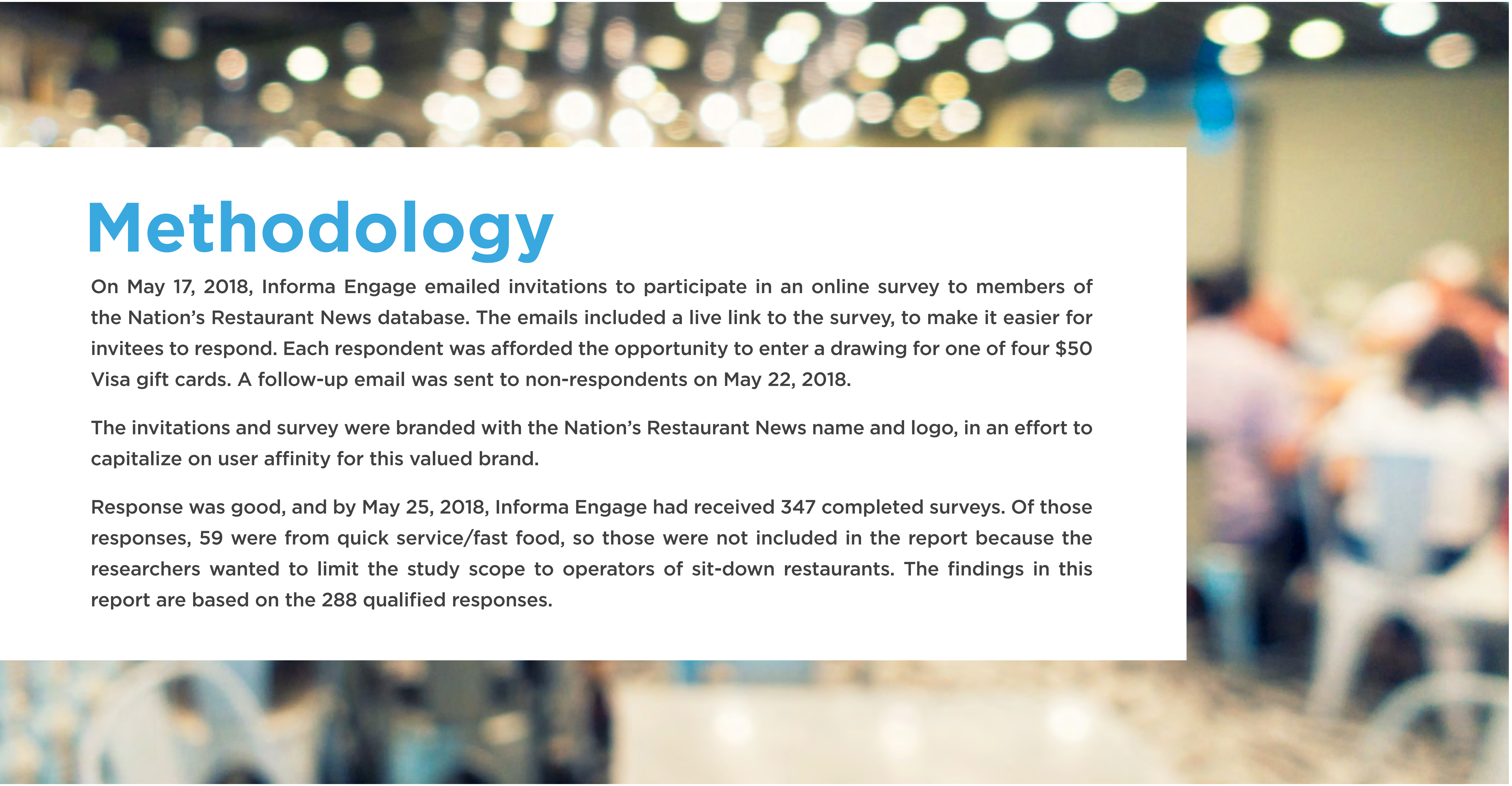
Base: All respondents (n=254)





Conclusion

Operators have a clear understanding of which challenges they need to overcome to run a profitable business, and they also have an idea of which strategies will help them maintain profitability. Labor issues remain top of mind, with turnover an ongoing struggle, but newsworthy controversies such as immigration laws and minimum wage increases are not truly worrisome. Technology can help offset the rise in labor costs, in various areas ranging from workforce management to purchase-to-pay, including software, apps, and data analytics.



Methodology

On May 17, 2018, Informa Engage emailed invitations to participate in an online survey to members of the Nation's Restaurant News database. The emails included a live link to the survey, to make it easier for invitees to respond. Each respondent was afforded the opportunity to enter a drawing for one of four $50 Visa gift cards. A follow-up email was sent to non-respondents on May 22, 2018.

The invitations and survey were branded with the Nation's Restaurant News name and logo, in an effort to capitalize on user affinity for this valued brand.

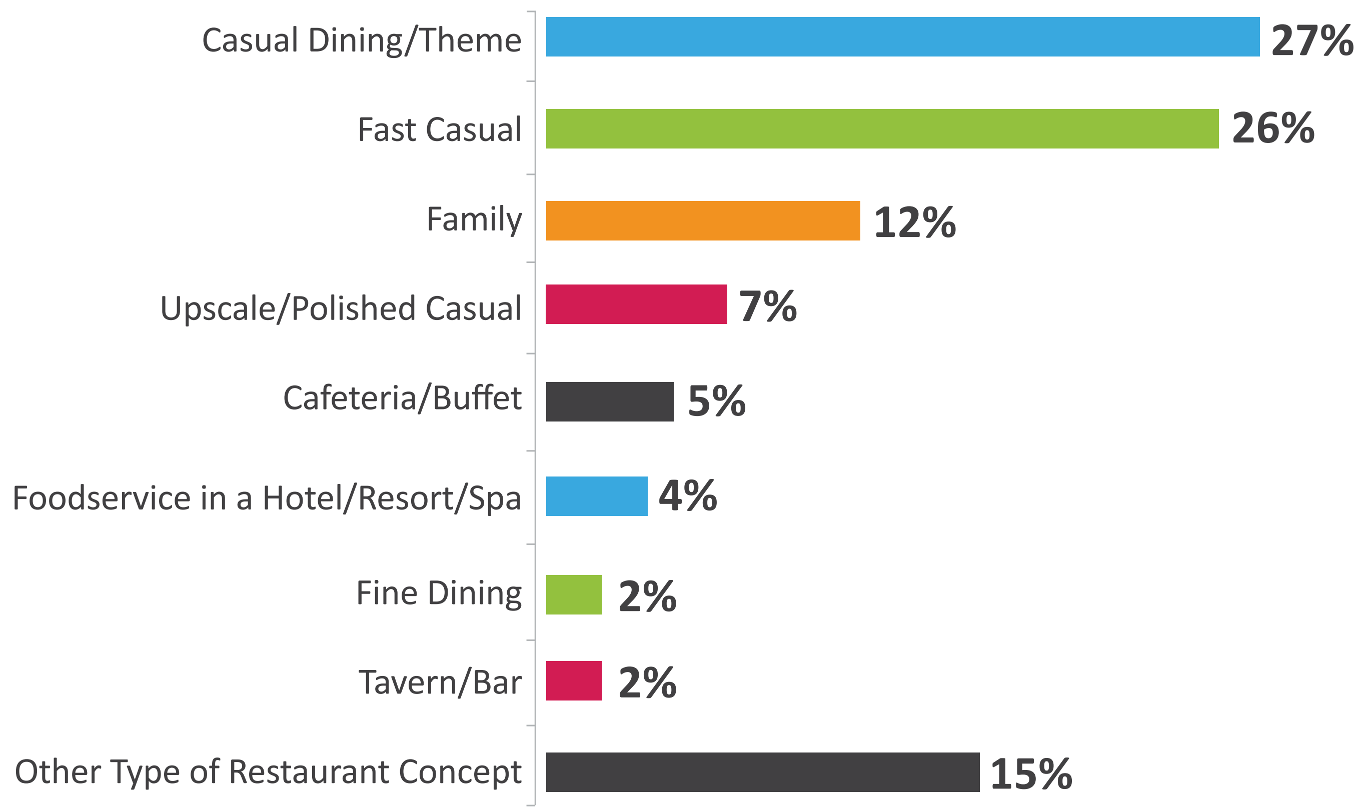
Response was good, and by May 25, 2018, Informa Engage had received 347 completed surveys. Of those responses, 59 were from quick service/fast food, so those were not included in the report because the researchers wanted to limit the study scope to operators of sit-down restaurants. The findings in this report are based on the 288 qualified responses.

Respondent Profile

Restaurant Concept

Base: All respondents (n=288)

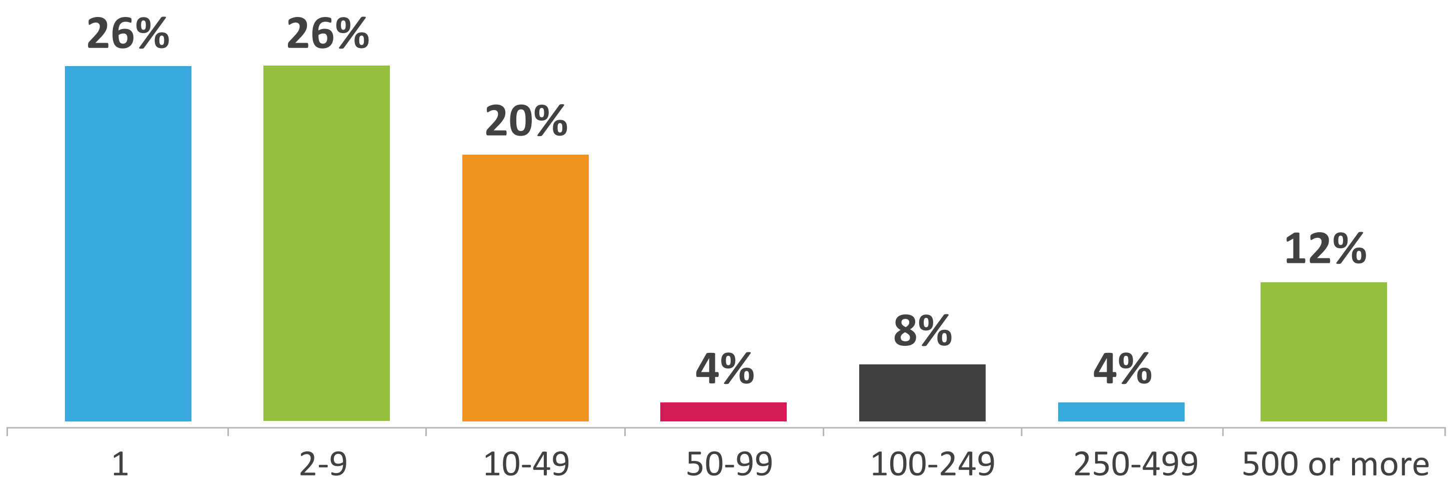
The respondents represented a variety of restaurant types, mostly casual dining/theme (27%) and fast casual (26%).



Number of Units System-Wide

Base: All respondents (n=281)

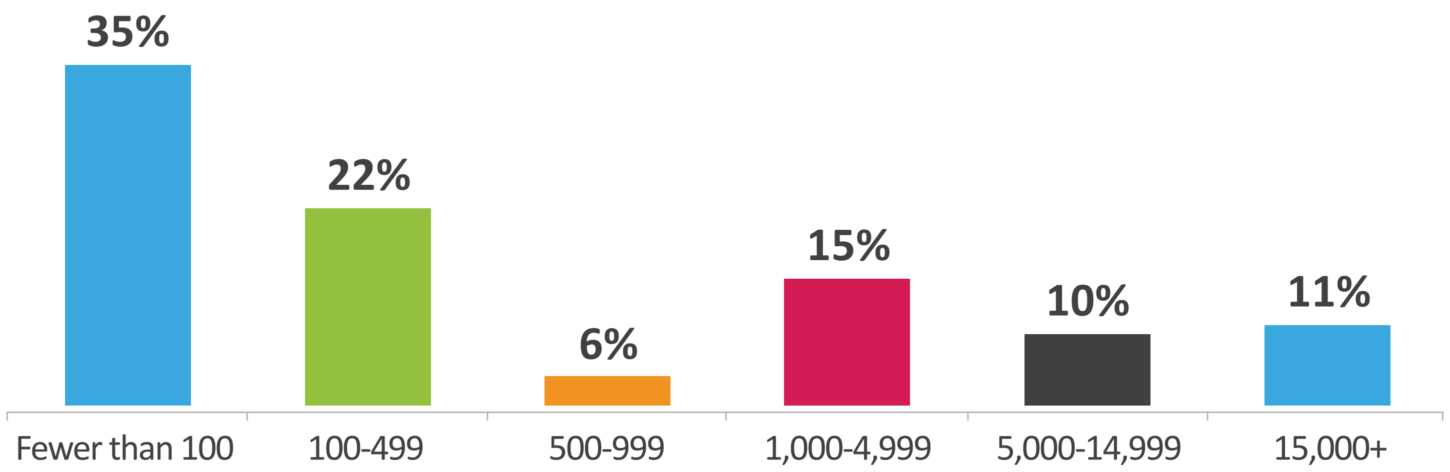
Most of the operators represented multi-unit operations. Only 26% had one unit, so 74% had anywhere from 2 to 500+ units.



Number of Employees System-Wide

Base: All respondents (n=279)

The sample included operations of all sizes: 35% employ fewer than 100 people, 28% employ 100-999 people, and 36% employ 1,000 or more people.

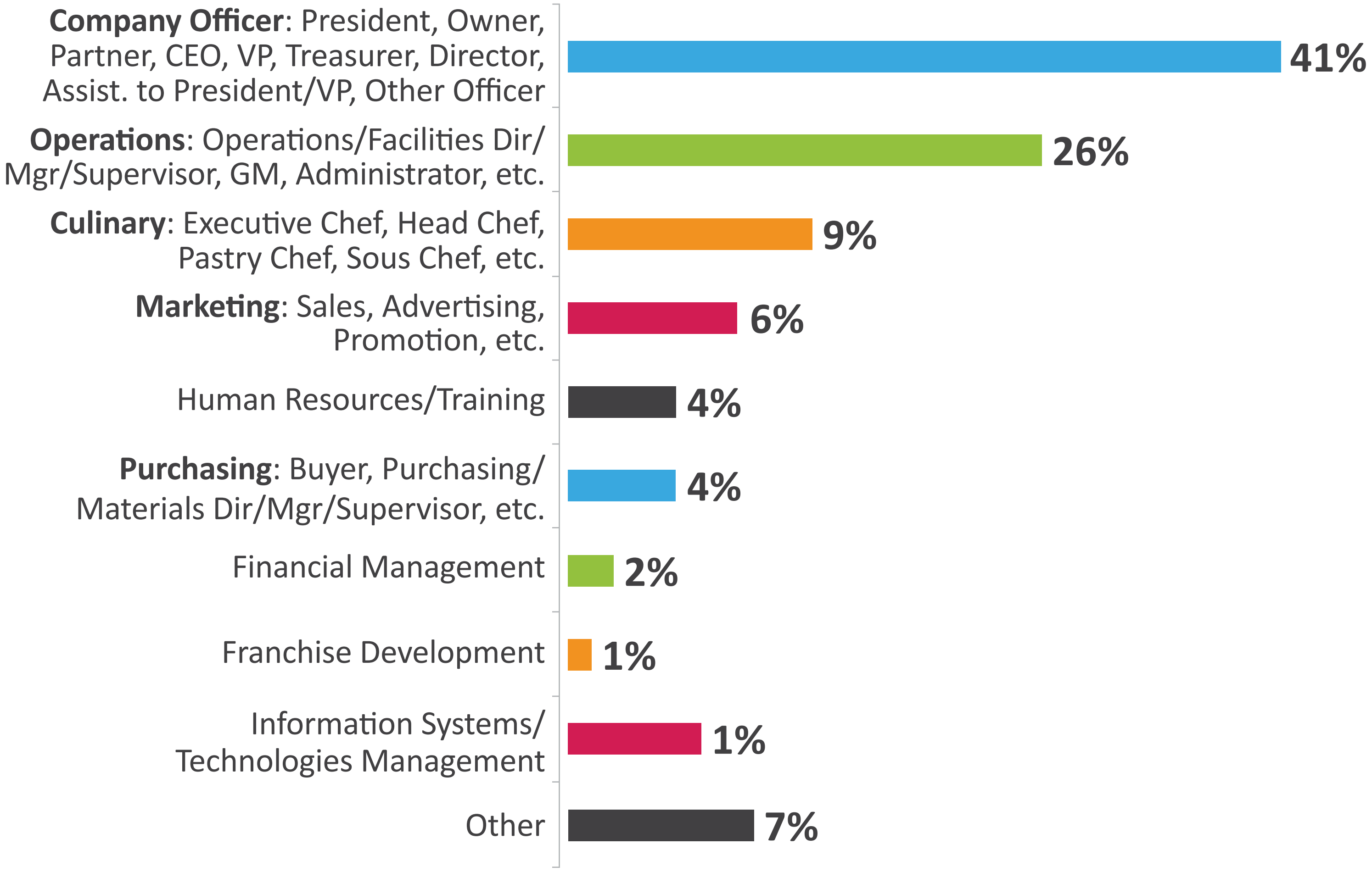


Respondent Profile

Job Function/Title

Base: All respondents (n=274)

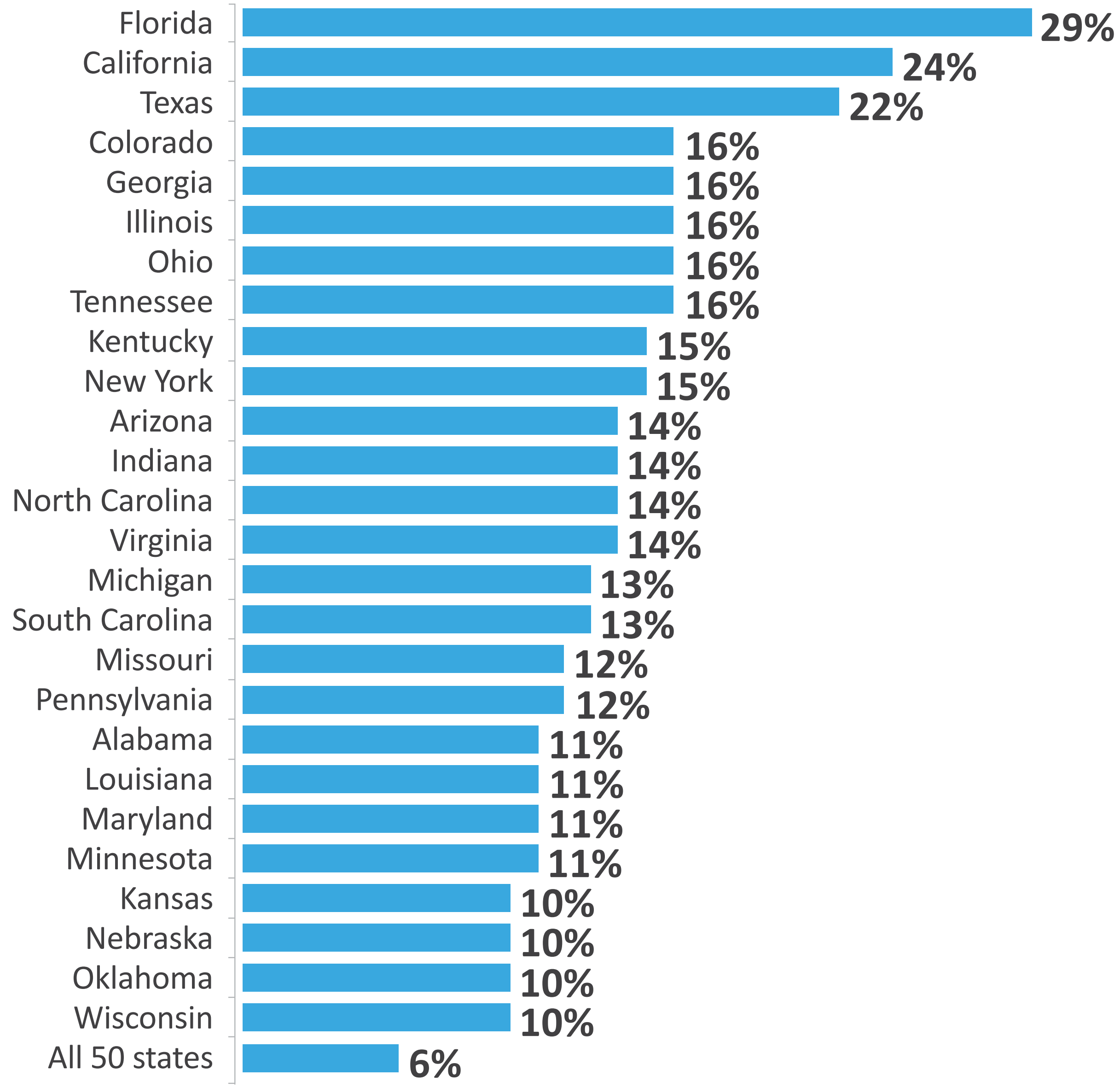
The respondents had job titles in every department, at many levels. The largest segment, 41%, were company officers, such as president, owner, or CEO. The second largest group, 26%, were operations managers, supervisors, administrators, and other operations professionals. There were even some culinary staff (9%) such as executive chefs and head chefs, and marketing (6%). Only 4% were in human resources, which seems to indicate that everyone in foodservice works on labor issues. One respondent wrote “all of the above.”



Respondent Location

Base: All respondents (n=273)

All the states were represented. The heaviest concentrations were in Florida (29%), California (24%) and Texas (22%). That mostly reflects population trends. According to 2015 figures from the BLS, the three most populous states in the U.S. are California (39.1 million people), Texas (27.5 million), and Florida (20.3).



About

Fourth offers a fully-integrated, complete back-office platform that covers workforce management, purchase-to-pay, inventory management, recipe and menu engineering, and advanced analytics. The platform is built solely to meet the distinct and complex requirements of the hospitality sector, with the depth of functionality needed to drive efficiencies. Its open architecture allows simple yet robust integration with other technologies.

Nation's Restaurant News is the leading resource for business intelligence in the foodservice industry. Over the years NRN has always been ahead of the curve, adapting to the latest technology platforms and devices its audience engages with. NRN boasts the largest editorial team in the industry, feeding the content engine that in turn drives the largest overall audience in foodservice. Industry leading reports have become benchmark studies for foodservice professionals.

informa engage TARGETED MARKETING SERVICES

Informa Engage is the marketing services powerhouse behind Informa's trusted brands. We provide B2B marketers with unrivaled specialist audiences, deep knowledge of vertical markets, sophisticated data and content marketing expertise. Through our deep understanding of our customer's behaviors and changing needs, Informa Engage connects marketers to customers as they move from discovering a problem to identifying features and functionality of a solution to selecting a provider and making a purchase.