

Cost Control in Food & Beverage

How Technology Can Help Maximize Profits





The research findings are designed to help quantify the significance of back-office functions and, more importantly, shed light on the ramifications they have on so many other facets of the operation.

Cost Control in Food & Beverage

INTRODUCTION

Great food and great service, delivered consistently, are at the heart of any successful restaurant business.

But success — and survival — also depend on being profitable. Every restaurant owner, whether independent or part of a large chain, understands that labor and inventory costs represent a significant variable expense to the business. Keeping control of those costs is as critical as the culinary magic that occurs in the kitchen. After all, how can a restaurant expect to make a profit when they are regularly overstaffing or running out of ingredients?

The same goes for loss prevention — if a restaurant owner is losing money through shrinkage or waste but has no way of tracking it, how can the business succeed?

In this research report, Oracle Hospitality partnered up with Technomic to survey more than 200 independent operators and chains. We wanted to understand how those operators are managing the task of controlling the costs of labor, inventory, and loss prevention. Where do their priorities lie? What are their biggest issues? How can the task of managing costs become more efficient?

By sharing the findings of the research with food and beverage operators globally, Oracle Hospitality aims to show that managing labor, inventory, and loss prevention is a global challenge that can be met by putting cost-control technology at the very heart of your operation.



Though these back-office problems are significant, food and beverage operators are finding an ally in cloud-based technology to resolve them.

EXECUTIVE SUMMARY

How much of a restaurant's revenue is spent on food and labor costs? Where are restaurants losing money? What are the key priorities when it comes to managing staff and inventory? These are just some of the questions that we asked our 200 restaurant operators, to help us establish the importance of cost control in a food and beverage operation, and how it can be improved. Among the key findings:

- 1. Labor and inventory, on average, combine to account for more than 50% of revenues.** The magnitude of their impact on budget clarifies priorities: Food and beverage operators must make cost control a key part of their operation. To offset labor costs, two-thirds of independent operators reported raising menu prices — directly impacting the guest experience.
- 2. Valuable time is often diverted and wasted on labor scheduling.** Food & beverage operators resoundingly rank recruitment, training and retention as top priorities for labor management, yet often find themselves mired in the mundane: 63% of restaurants change schedules prior to posting and 49% do so after posting. What's worse, even after all these adjustments, 44% reported that understaffing is an issue, which can impact the dining experience.
- 3. Inventory management also takes up valuable time.** A third of operators said that they spend more than 3 hours per week managing stock, when the top priorities for inventory actually lie in meal quality and kitchen staff empowerment.
- 4. Over-portioning and food waste are among the primary loss culprits.** But 50% of independent operators said they do not track prepared waste. Furthermore, 60% reported they do not use a forecasting system to improve ordering, which likely contributes to the waste problem.

There is no doubt that cost control needs to be a significant priority for any food and beverage operation. By using technology to manage labor, inventory, and loss, operators can increase efficiencies while reducing the manual effort needed to achieve maximum control — releasing that time for other priorities.

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LABOR MANAGEMENT



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Finding #1: Labor makes up a quarter of revenue

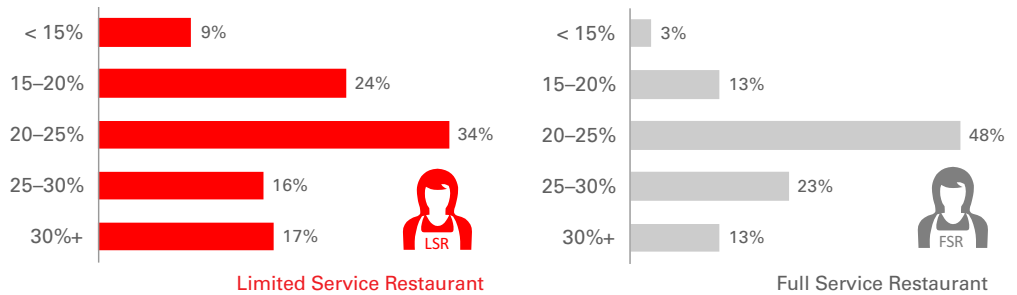


For enterprise and independent operators alike, labor accounts for roughly a quarter of total revenues. And a sizeable percentage of limited-service restaurants (17%) and full-service establishments (13%) reported spending a staggering 30% or more of revenues on staffing. To offset high labor costs, restaurateurs almost inevitably boost menu prices: Indeed, two-thirds of independent operators reported taking such action, and 38% of operators who had not raised prices said they planned to do so in the next six months. The cost of labor is one of the most significant factors in a restaurant business, and consequently, its variation can have a rippling affect across all operations. Which explains why controlling it is of paramount importance.

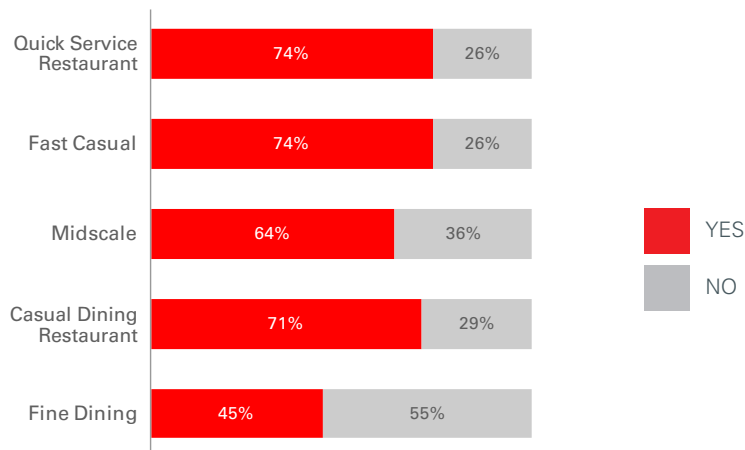
Technology Tip:

Technology helps corral labor cost in various ways — with tools that build efficient scheduling, track staff hours and retain top employees.

LABOR COSTS AS % OF SALES HOURLY + MANAGEMENT



INCREASED MENU PRICES TO OFFSET LABOR COSTS



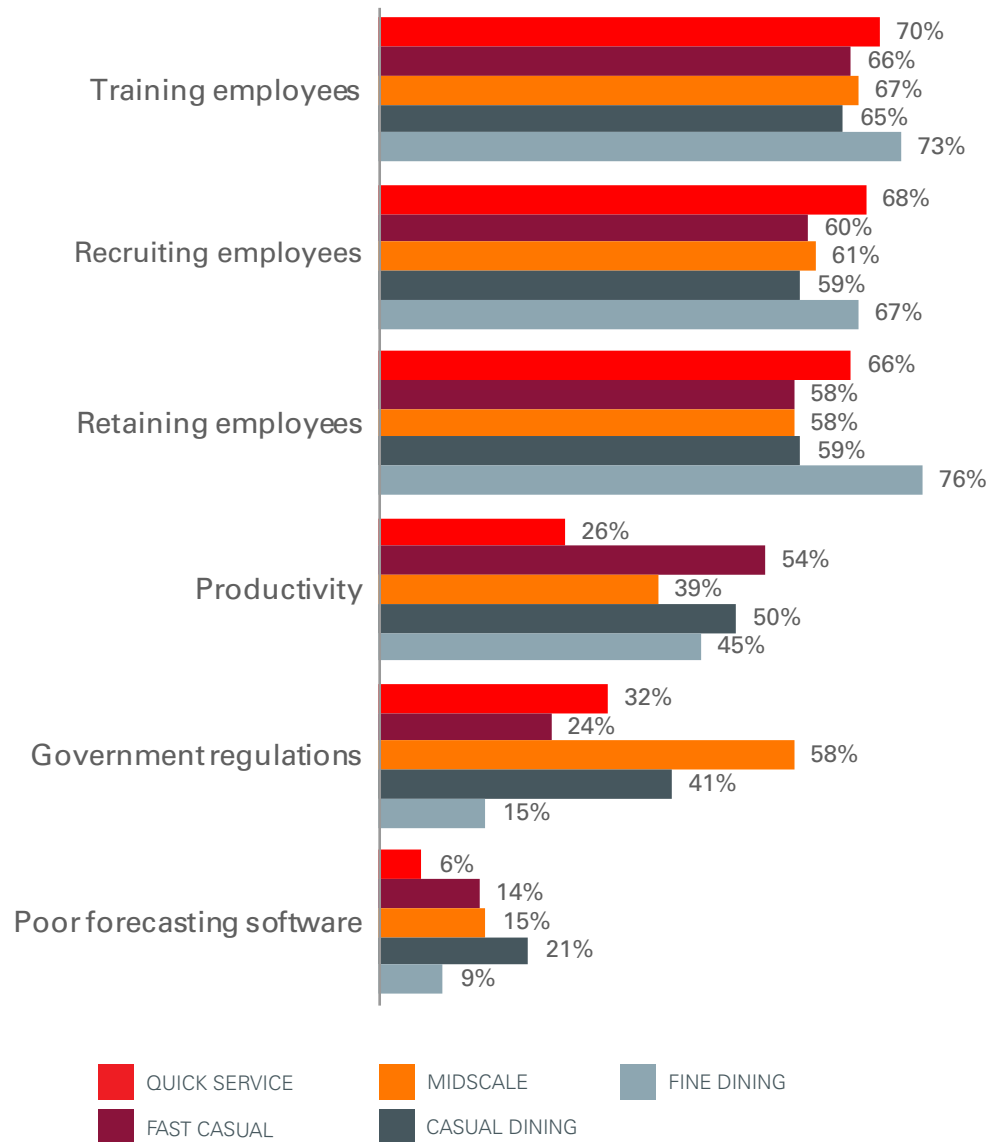
Finding #2: Training, recruitment and retention are the top labor concerns



Technology Tip: Cloud solutions can simplify onboarding, deliver training efficiently and empower employees to better manage their schedules — providing the ingredients for a happier, connected workforce.

Training, recruitment and retention — enterprise and independent operators wholeheartedly agree that these are their top priorities when it comes to labor, ahead of other concerns such as productivity and government regulations. In an era of individualization, when customers covet personalized attention and service, it is critical for restaurants to hire first-rate staff and train them to meet, if not surpass, marketplace expectations. To carve out appropriate time to address foremost priorities, management needs to simplify and efficiently handle “processing tasks,” including new employee onboarding and training delivery.

TOP LABOR CONCERNS



Finding #3: Schedules are frequently changed before and after posting

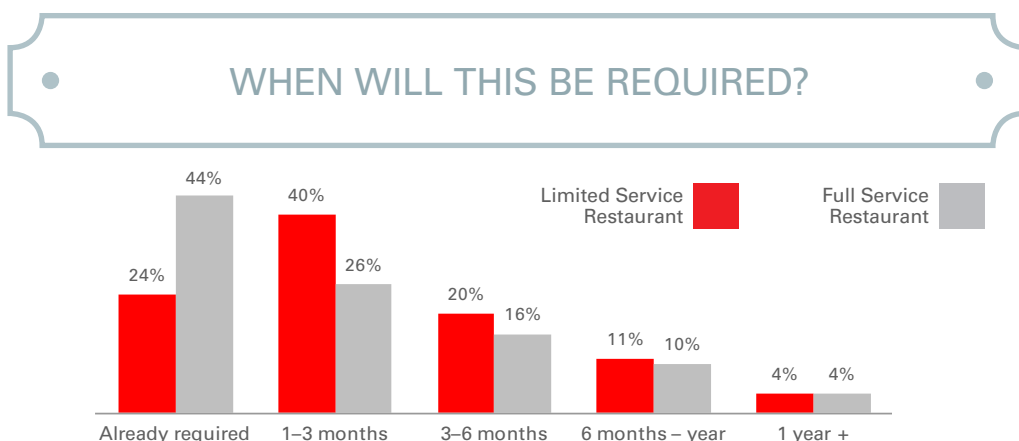
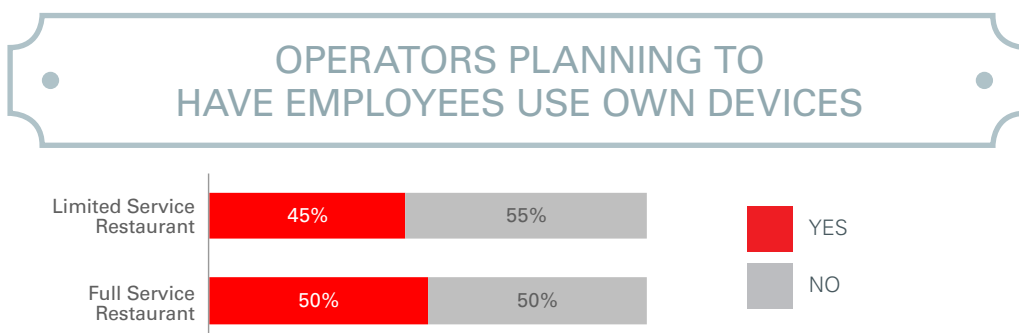
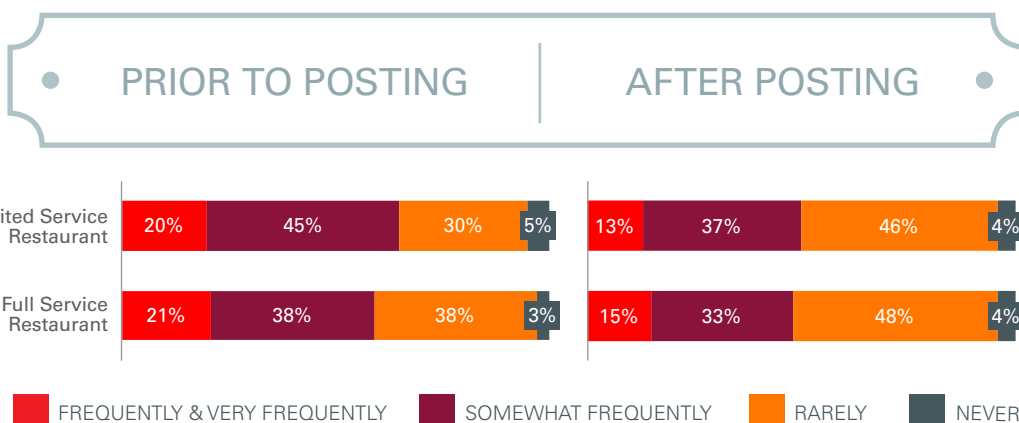


Staff schedule changes are a fact of life; 63% of restaurants either “frequently” or “somewhat frequently” change schedules prior to posting, and 49% “frequently” or “somewhat frequently” make changes after posting. Such frequency suggests that better processes are required to minimize the time and effort required to manage these changes. Indeed, with far more pressing tasks to tackle, half of the independent restaurants surveyed will encourage staff to use their own mobile devices to manage schedules, and 51% of those plan to introduce it in the next six months.

Technology Tip:

Technology can help manage one of the headaches of the business: schedule changes. It can enable employees to electronically make their own changes, and keep operators abreast of staffing needs.

Technology Tip: Equipping staff with better tools to do their jobs, such as mobile devices, fosters a sense of “ownership” in their work — and makes managers’ lives easier, too.



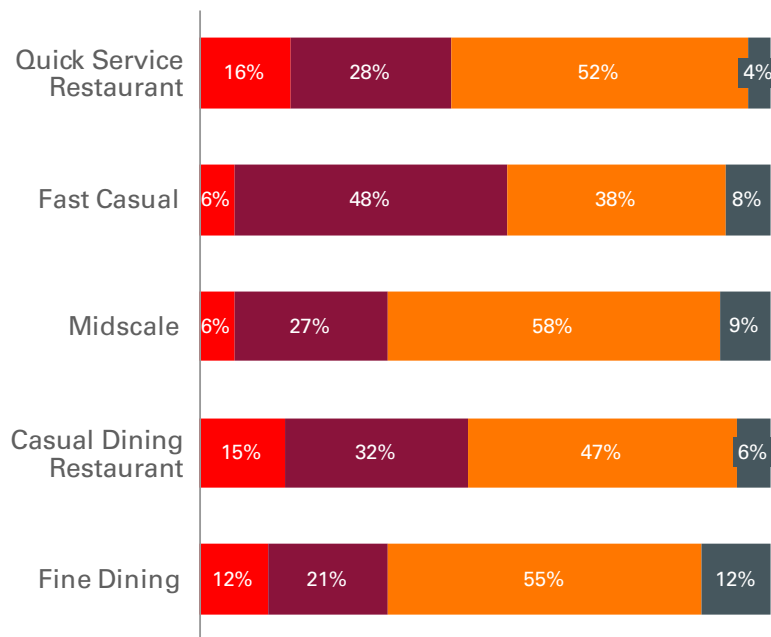
Finding #4: Understaffing is an issue



44% of independent operators say understaffing occurs “somewhat frequently” or more often, despite all the scheduling and changes to schedules that we saw on the previous page. The issue is most pervasive in fast-casual restaurants, with 54% reporting understaffing as a somewhat frequent or more frequent issue. By comparison, only 24% of independent operators said overstaffing was an issue. Ever watchful of labor costs, it is no surprise that restaurants err on the side of understaffing when it comes to scheduling practices, but such findings remind us that the guest experience can be jeopardized by overstretched resources.

Technology Tip: Forecasting tools do more than just project sales; they can pull data from POS systems and automatically build staff schedules that factor in labor costs and productivity needs.

UNDERSTAFFING IS A CHALLENGE



■ FREQUENTLY & VERY FREQUENTLY
 ■ SOMEWHAT FREQUENTLY
 ■ RARELY
 ■ NEVER

Finding #5: Changing government regulations are a big concern



Technology Tip: Staying on top of regulations governing wages and benefits is a challenge, but technology can help ensure compliancy. Solutions such as Oracle Hospitality inMotion, for example, sends alerts if an employee is approaching overtime.

For 33% of operators, government regulations are among their biggest concerns, especially as they relate to minimum wage legislation. To counter rising wages, the most common measures taken by restaurants include restricting the amount of hours an employee can work and creating split shifts. Such actions, managers said, place a greater premium on technology solutions that can alert them when their employees are approaching overtime or work-hour limits.

“Lowered staffing levels due to minimum wage, have created many split shifts to minimize slow and down times.”

“We look for efficiencies in operations—equipment, recipes, BOH layout—and how to capture areas of waste by tracking trends and peaks to maximize productivity with minimal staff.”

“We have to do more with less, and given the job market is strong, that makes it doubly-hard to find quality people.”

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INVENTORY MANAGEMENT



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Finding #1: Food cost accounts for 25% or more of revenues

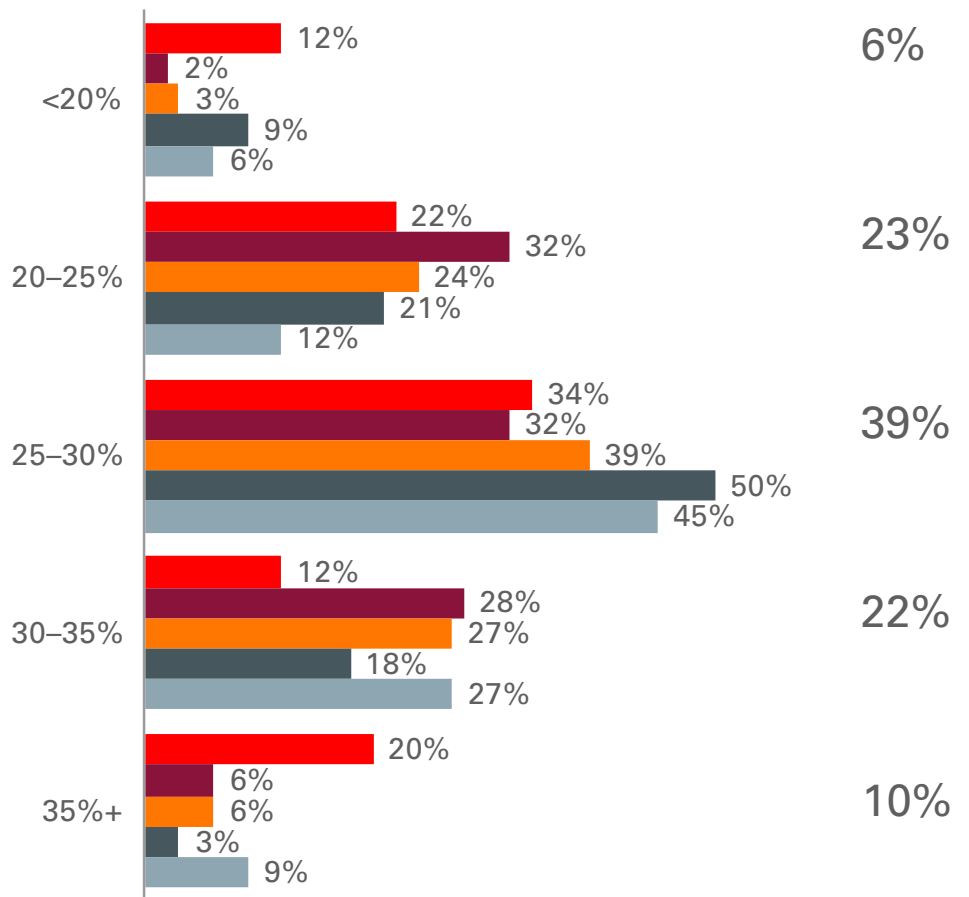


Technology Tip:

Menu-modeling solutions evaluate margins when food costs rise, giving restaurateurs options to alter recipes or adjust menu prices.

Food cost, along with labor expense, rank first and second, respectively, when it comes to consuming restaurant revenues. In fact, more than 71% of independent operators said food cost accounts for 25% or more of revenues, including 10% who reported that the line item exceeded 35%. By comparison, only 6% said they managed to keep food cost under 20%. Considering its super-sized impact, inventory cost is a lynchpin for financial success — and getting it under control is an absolute priority.

FOOD COST AS PERCENTAGE OF SALES



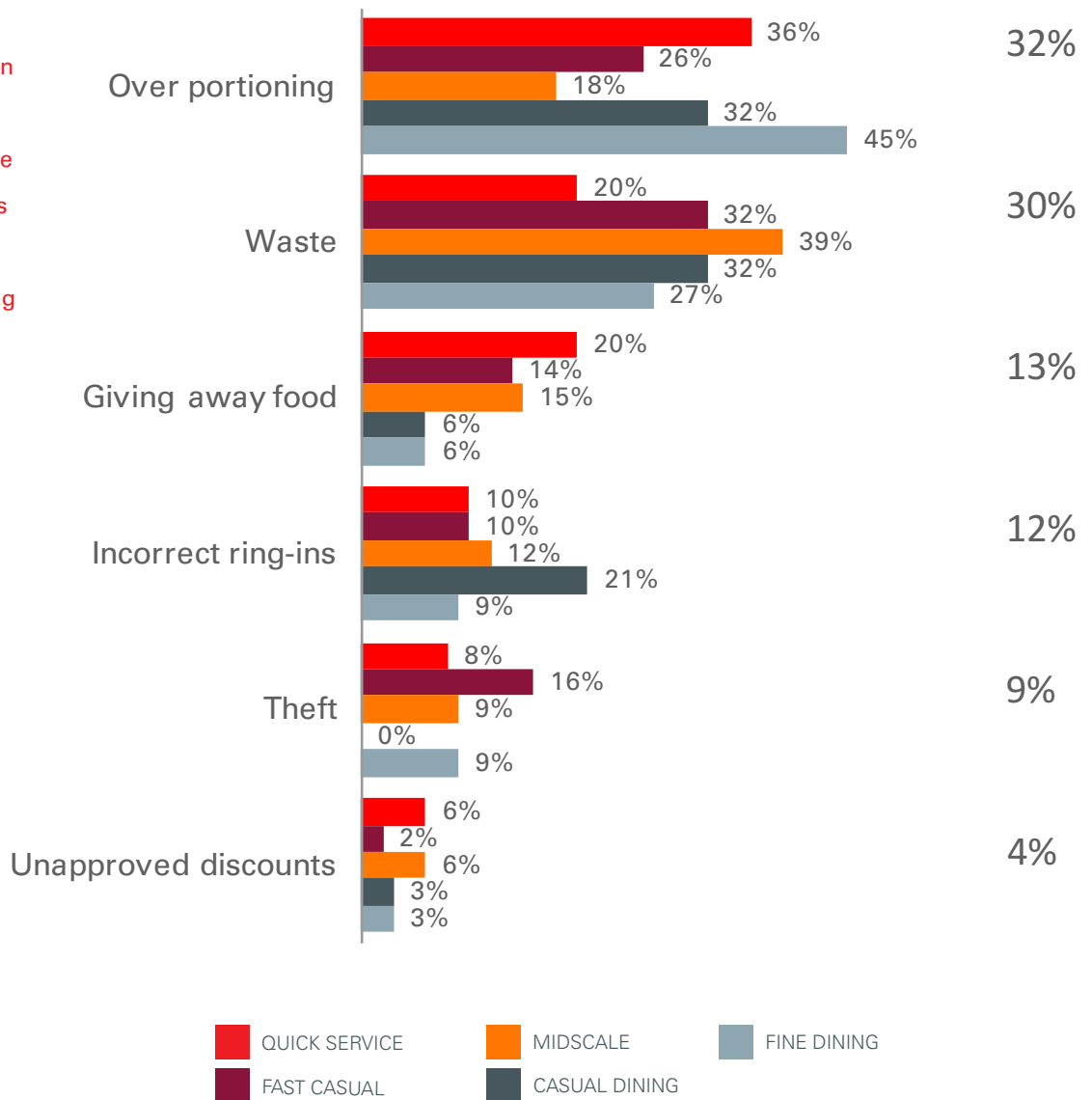
Finding #2: Over-portioning and food waste are the greatest areas of loss



Technology Tip: Better training and monitoring can address some of the industry's most persistent problems, and technology helps on both fronts: POS systems can print recipe cards to prepare dishes properly and be used to track waste — keeping employees committed to tasks.

Over-portioning and food waste are considered the two biggest factors for loss, according to nearly a third of all operators surveyed. They dwarf other factors that certainly can undermine a restaurant's financial health: giving away food (13%), incorrect ring-ins (12%), theft (9%) and unapproved discounts (4%). The good news is, the top issues can be curbed through education and monitoring. Training staff with proper guidelines can minimize over-portioning, and addressing waste by making it a priority and tracking it accurately can be an effective deterrent.

AREAS OF GREATEST LOSS



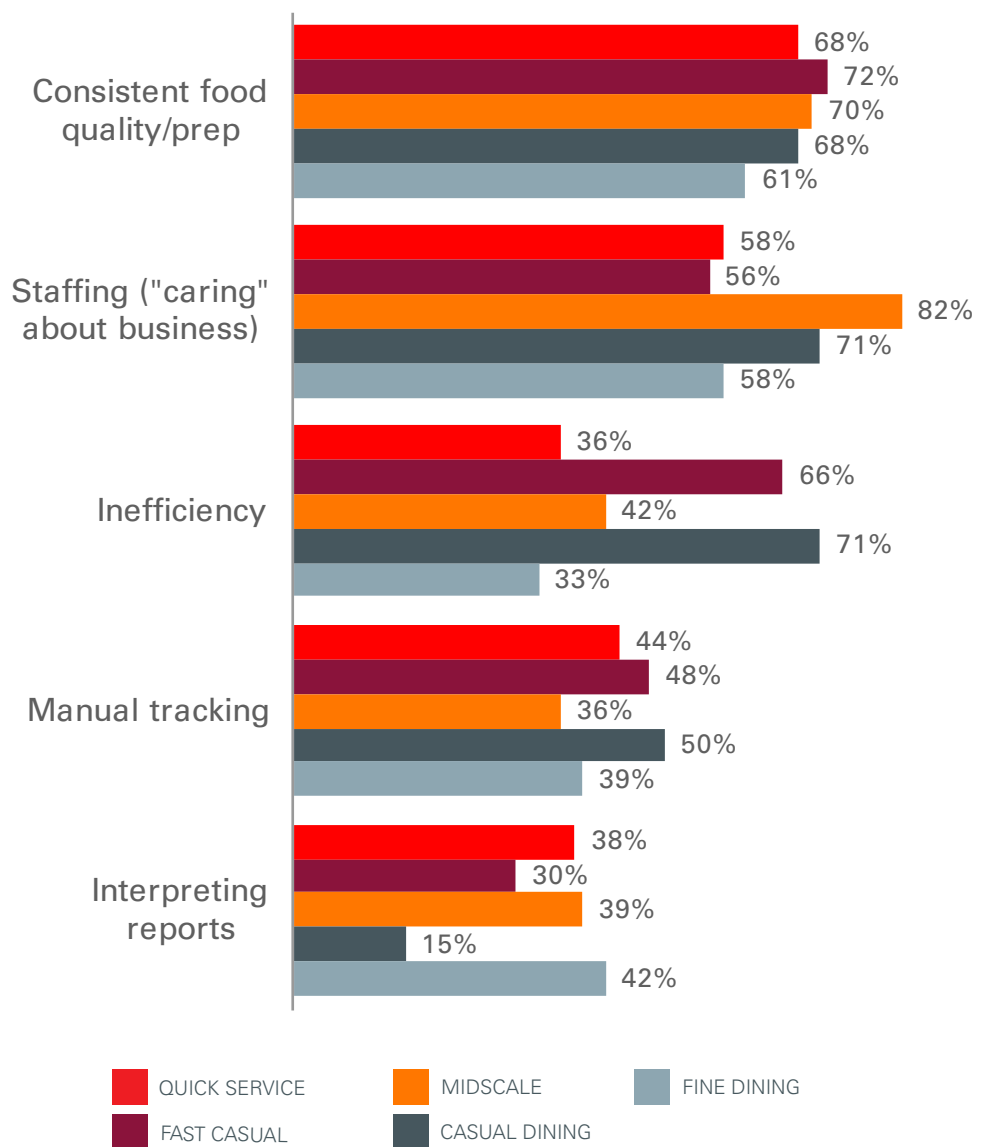
Finding #3: Food consistency and staff empowerment are the top inventory concerns



Technology Tip: Kitchen display systems can help maintain recipes and provide the resources to make sure staff knows how to best prepare food.

Delivering consistent food preparation and meal quality (68%), and cultivating a sense of “ownership” among staff for their work in the kitchen (64%) were among the top inventory management concerns cited by independent operators. The two issues are understandably linked, because staff members that care about their craft invariably lead to better preparation and quality meals. Using kitchen display systems can play an instrumental role on this front: By helping maintain recipes and guiding proper food preparation, they help “teach” staff, fostering confidence, competence and a sense of empowerment.

TOP ISSUES FOR MANAGING INVENTORY



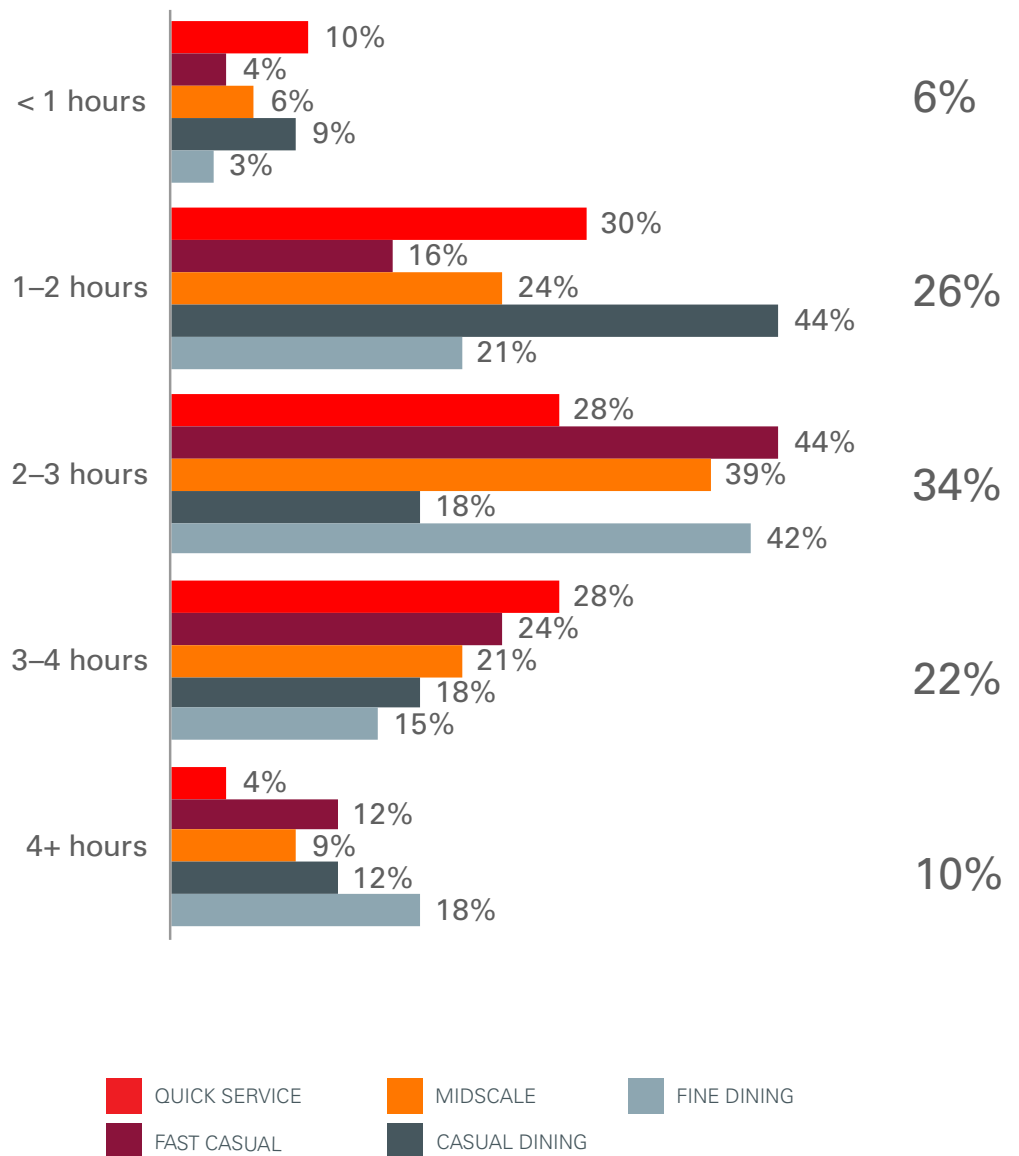
Finding #4: Operators spend more than 3 hours a week managing inventory



Technology Tip: Minimize the mundane. An inventory management system automatically calculates totals and volume, allowing you to spend less time counting stock, while employing greater accuracy.

Operators need to extract efficiencies from across their enterprise, and one task that can stand obvious improvement is stock management: About one-third of independent operators reported spending more than three hours per week managing inventory. Automating "processing tasks," such as stock counting and ordering process, improves speed and accuracy. Just as important: Automation does more than minimize the mundane; it creates time to innovate.

TIME SPENT MANAGING INVENTORY



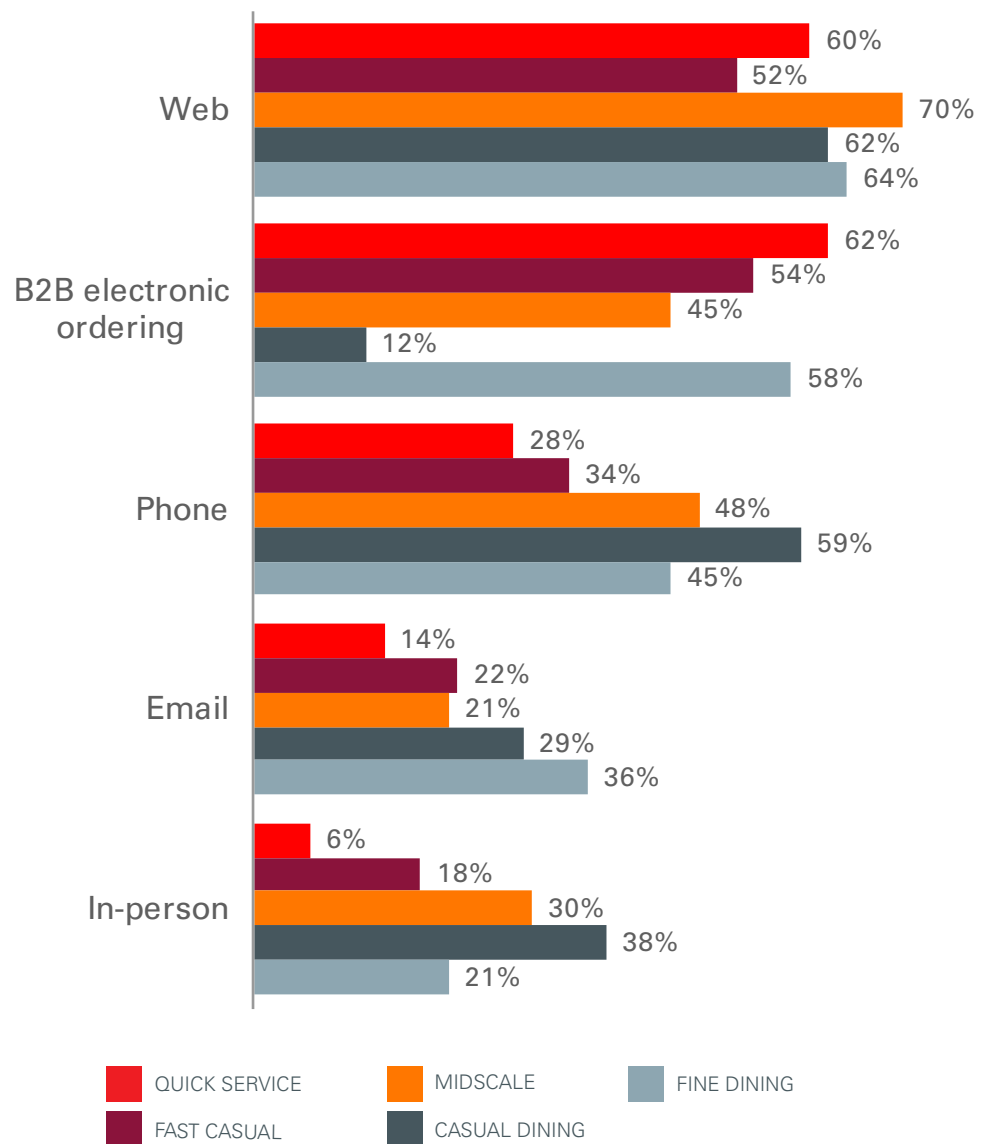
Finding #5: The web is the preferred choice for ordering stock



Technology Tip: Ordering stock remains a time-consuming, manual task for many. By integrating inventory management and ordering, faxing or emailing orders to distributors becomes a thing of the past: Orders can be sent right through the POS.

For most types of restaurants, the web is the preferred channel choice for ordering stock. Indeed, 70% of mid-scale restaurants rely on the web, and so do 60% of all independent operators surveyed. B2B ordering is another common means, typically outpacing other options such as phone, email and in-person ordering. However, all of these options are failing to capitalize on a valuable efficiency: By integrating inventory management and ordering, restaurateurs can increase accuracy and reduce manual effort, freeing up time for more pressing tasks.

DISTRIBUTOR ORDERING CHANNELS



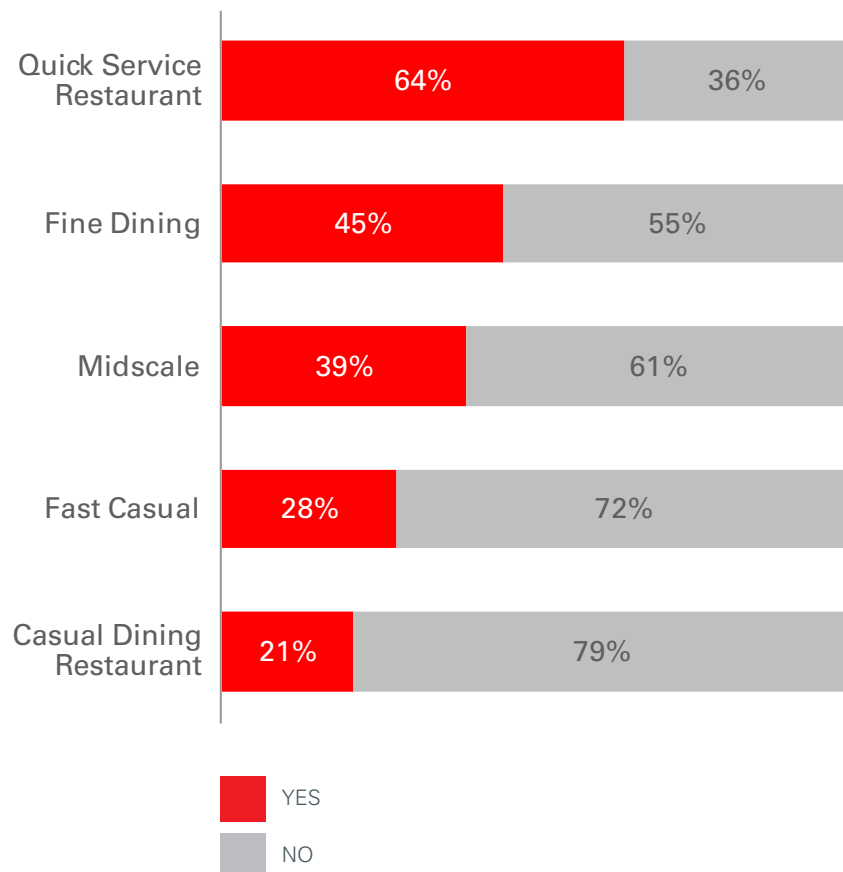
Finding #6: Most operators do not use automated forecasting



Technology Tip: The benefits of forecasting tools extend far beyond just placing more accurate orders; they mean carrying less inventory and fewer headaches managing deliveries and shortages.

By employing automated forecasting tools to enhance direct purchasing, operators can reap immediate benefits: Most notably, accurate orders mean carrying fewer items in storage and using less labor time to sort through deliveries or resolve shortages. Surprisingly, however, 60% of independent operators are not taking advantage of integrated inventory system forecasting tools to create stock orders. The exception to the rule: 64% of quick-service restaurants have embraced automated forecasts for purchasing.

PURCHASING DRIVEN BY AUTOMATED FORECASTS



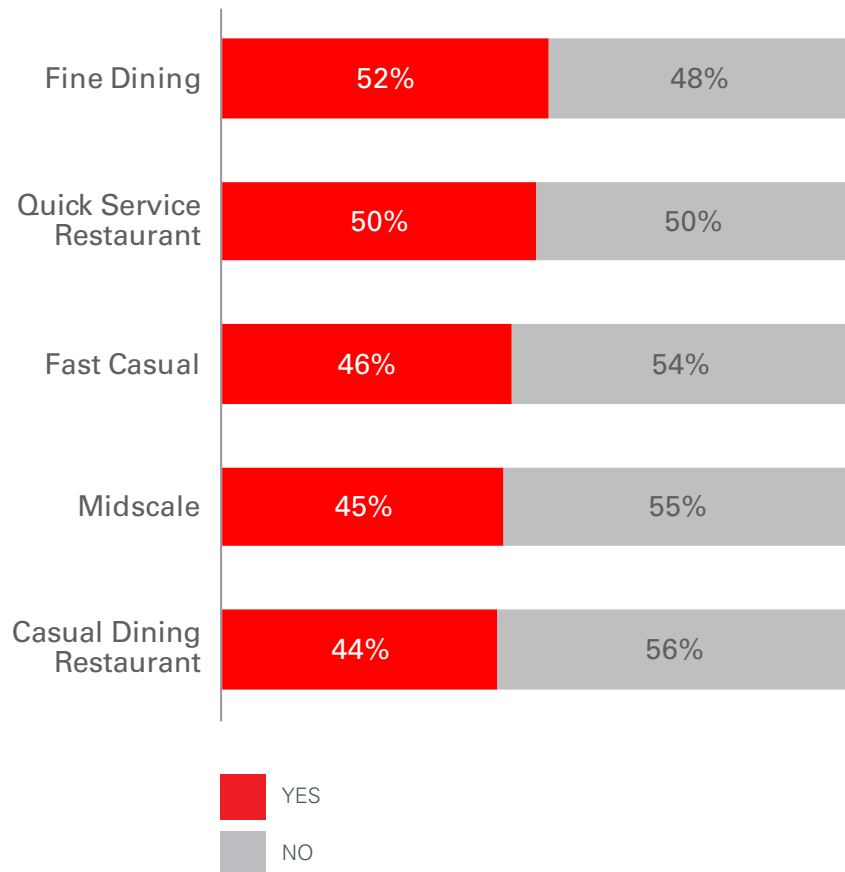
Finding #7: Half of operators do not track prepared waste



Technology Tip: Using a waste-tracking system integrated with a POS system is the most efficient way to monitor money being lost. More importantly, it's a great tool to help hold everyone accountable.

50% of independent operators do not track prepared waste, despite waste being one of the biggest areas of loss to a restaurant business. Failing to track prepared waste is akin to ignoring losing money. But as difficult as it may be to comprehend, such indifference is fairly consistent among all restaurant types. On the bright side, among those who do track, 71% have a waste-tracking system integrated with their point-of-sale system.

OPERATORS TRACKING PREPARED WASTE





LOSS PREVENTION



Finding #1: Shrink prevention training is conducted at least once per year for 26% of operators

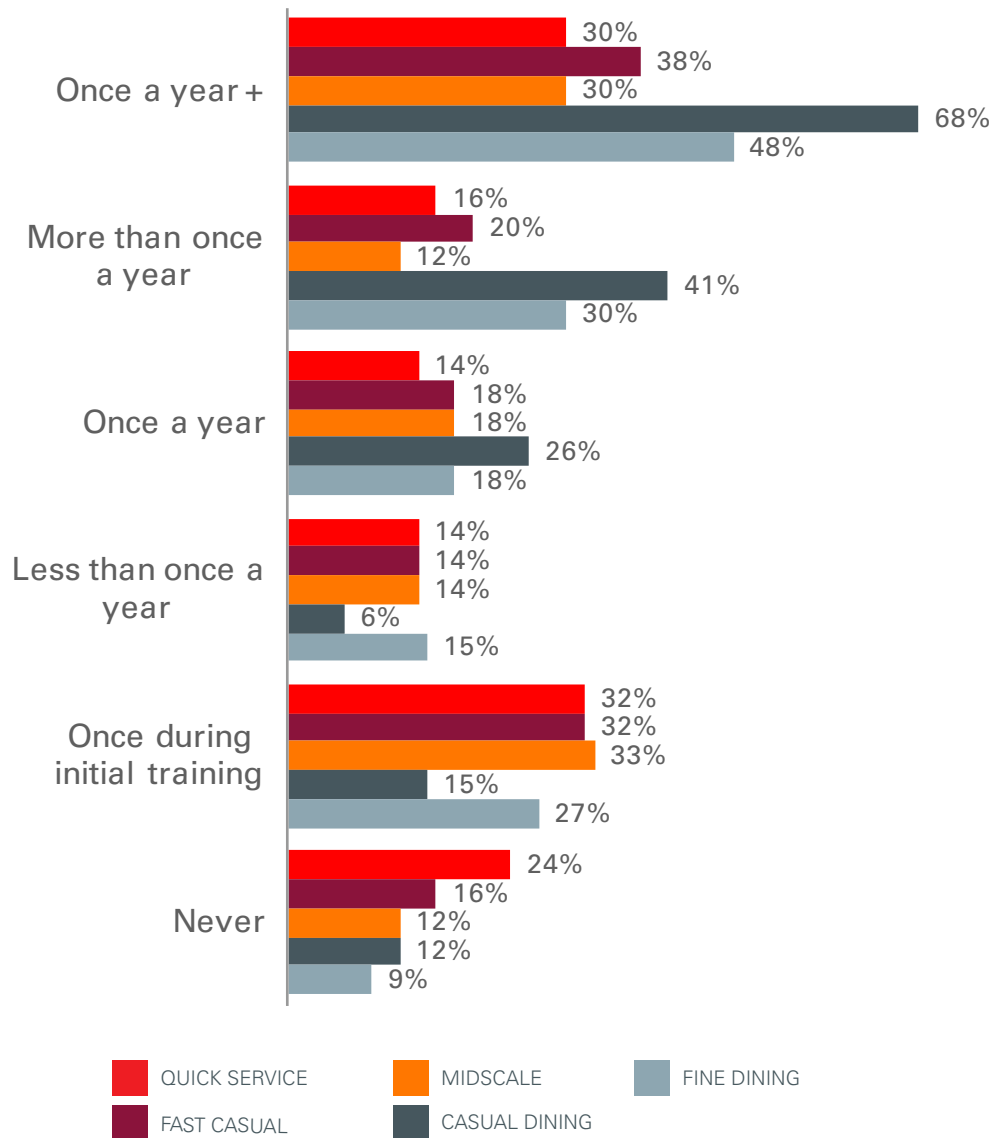


Casual-dining restaurants lead the way when it comes to training staff on shrinkage: 26% carry out training programs at least once per year, and 41% conduct such training even more frequently. By simply using an inventory or loss-prevention solution, operators send a clear message to employees that they are being vigilant — and that is often enough to discourage misdeeds. It is important, too, for managers to understand business performance and financials so they can identify variances that indicate potential issues.

“We provide lots of on-the-job training. Managers need to understand business performance and financials so that they can look for variances and spot any issues. They also need to understand their profit-and-loss statements and know what [they] mean in order to discover why things are out of whack.”

– CEO, Casual Dining Restaurant

SHRINK PREVENTION TRAINING



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CLOUD SOLUTIONS



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Finding #1: The future of labor and inventory management is cloud

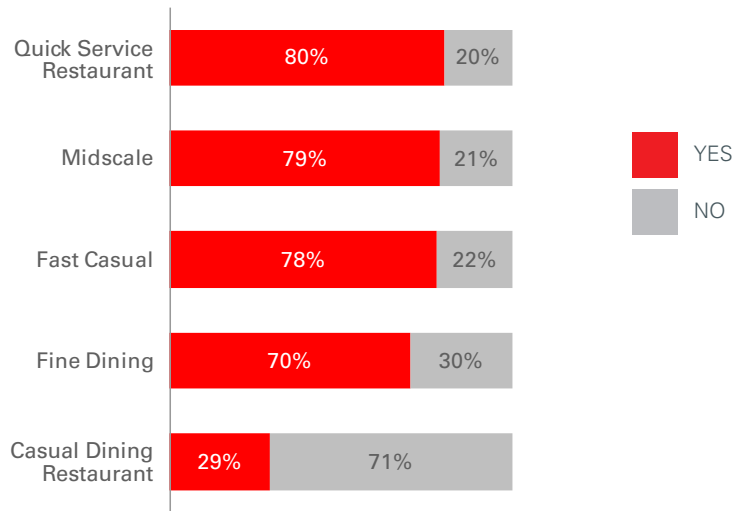


Technology Tip:

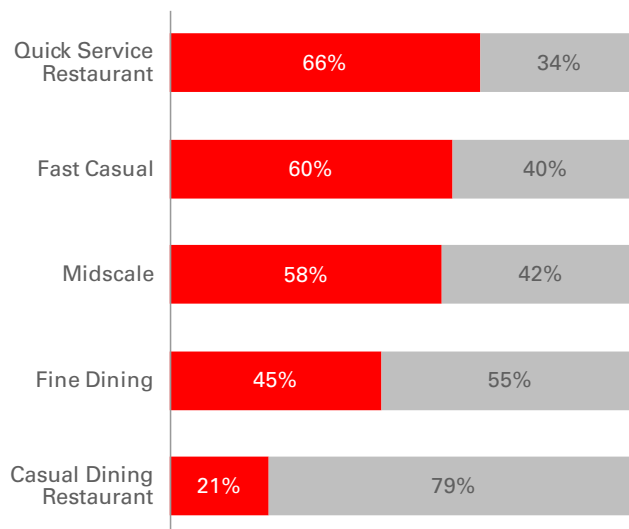
Cloud changes the way that your entire business operates, bringing benefits to everyone. With a cloud system you can reduce IT costs, deliver consistency across locations, engage with guests through mobile devices, and much more.

At least 50% of independent operators already rely on cloud solutions for both labor and inventory management. And the shift to the transformational technology is only going to hasten: Of those not using cloud for labor management, 50% plan to do so, and among that group, 32% intend to make the switch in the next year. Likewise, 44% of operators without a cloud inventory system plan to adopt one within the next 12 months. Why is cloud becoming the solution of choice? Besides resolving the industry’s age-old issues linked to labor and inventory, cloud is alleviating IT’s biggest headaches: Escalating cost and complexity.

OPERATORS USING CLOUD BASED LABOR MANAGEMENT SYSTEMS



OPERATORS USING CLOUD BASED INVENTORY SYSTEMS





Gaining insight is the first step toward meaningful action, whether fixing a problem or improving a process. Though these back-office problems are significant, food and beverage operators are finding an ally in cloud-based technology to resolve them.

TAKEAWAYS

The challenges of cost-control are many and seemingly confounding. But with a better understanding of their scope and root causes, they can be remedied systematically — especially with the aid of technology. Here are a few key takeaways:

- 1. Making cost-control a top priority is of paramount importance.** With line items such as labor and food, on average, consuming more than 50% of revenues, it is glaringly evident that effectively managing costs is crucial in determining a restaurant's fate.
- 2. With so many critical labor tasks to tackle — such as training, recruitment and retention — management cannot afford to waste time with “processing tasks” such as scheduling, onboarding new employees and training delivery.** Automated solutions exist to deal with such functions — use them.
- 3. Integrated inventory management not only enhances accuracy of key tasks, but are invaluable means for saving time and money.** Among the helpful options: using forecasting tools to improve ordering (and reduce waste), employing solutions to track prepared waste, and automating ordering with distributors as well as automating stock management. Bottom line: These solutions help free managers to focus their attention on the things that matter most.
- 4. Cloud technology puts cost control at the heart of your operation** — half of operators are already using cloud for managing inventory and labor, ensuring that they have centralized control of costs across multiple locations while minimizing the cost and complexity of IT. Find out more in [The Power of Cloud for Food & Beverage — what every F&B executive needs to know](#).

METHODOLOGY

Oracle Hospitality commissioned an independent research agency to prepare this study, which included conducting 200 quantitative surveys with independent operators and small chains; participants comprised 100 limited-service establishments, including fast casual, and 100 full-service restaurants. In addition, information in this report is based upon 12 in-depth, qualitative interviews with chain accounts based in the United States.



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For more research on
food and beverage, please
visit [The Lounge](https://www.oracle.com/the-lounge)
www.oracle.com/the-lounge



ORACLE HOSPITALITY SOLUTIONS

Oracle Hospitality provides cloud technology solutions to hotels, restaurants, coffee shops, bars, stadiums, theme parks and other hospitality operators to help them deliver exceptional guest experiences. Our cloud platforms provide operators with the enterprise agility that they need to remain innovative and responsive to change, while maintaining the reliability that is essential in our industry. Our comprehensive suite of hardware and software solutions optimizes operations from the back office to the kitchen to the front desk.

Oracle Hospitality Symphony Cloud can spearhead your cost-control initiatives. With a single cloud platform for managing POS, kitchen management, inventory, labor and loss prevention — as well as loyalty and reporting — Symphony tackles the following tasks:

Labor management: build profitable schedules using forecasting and historical data; centrally onboard staff; foster real-time collaboration among a mobile-empowered staff

Inventory control: conduct ordering based on forecasts; manage recipes and product-costing capabilities; view real-time product usage; maintain global overview of purchases by vendor, store and item

Loss prevention: reduce food, labor and other variable costs; reduce shrink and increase sales; quickly identify fraud incidents and collect court-admissible evidence; analyze data by location, server and transaction

Reporting & Analytics: gather sales and productivity data while off-site, monitor when employees are approaching overtime, examine reports featuring comprehensive sales, financial, and operational information

Forecasting & Budget: create forecasts, set projections for KPIs, guide stock ordering and staff scheduling to ensure demand is met

Kitchen Management: simplify kitchen communication and processes, increase efficiency, reduce errors, and enhance food quality and speed of service



FOR MORE INFORMATION

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