

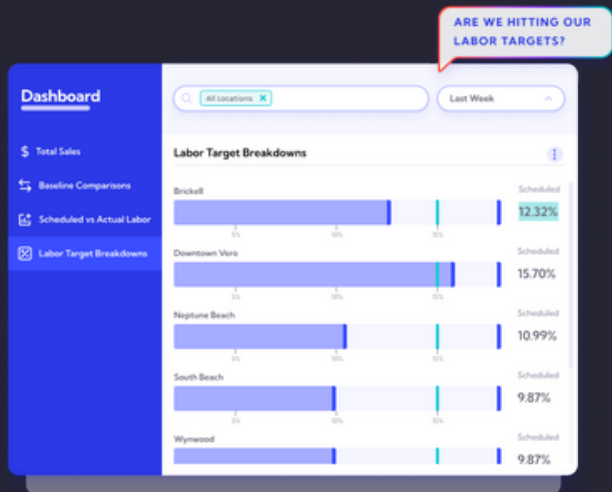
# Managing Restaurant Labor as a Percentage of Sales

A practical guide for turning a traditional restaurant cost center into a profit margin advantage



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# Managing Restaurant Labor as a Percentage of Sales

The average restaurant profit margin is between 3%–5%. That doesn't leave much room for error. It's not uncommon for restaurants to pull in tens of thousands of dollars in sales in a single night, but profits stay low due to the wide range of overhead costs in the industry. Among those costs, labor is one of the most significant. Not only are restaurant labor costs on the rise, but many restaurants are understaffed. Effective labor management has never been more important.

Labor accounts for around 25%–35% of costs in the restaurant industry. Hiring good workers and paying them well is a necessary part of a successful restaurant business, but mismanaging your labor spend eats into your already tight profit margins. In this guide, we're going to show you how to not only manage labor spend effectively, but how to view it as a percentage of sales so you can use it to drive profit.

## What do we mean when we say “labor as a percentage of sales”?

If you're a restaurant owner or manager, or if you're in operations for a hospitality group, there's a good chance that you're already familiar with the concept of labor cost percentage (and if not, you should be). Regardless of your level of focus on labor cost percentage, we're going to ask you to reframe the way you think about it. Instead of viewing labor strictly as a cost center for your restaurant, think of it as a target to aim for—one that, if you hit, your profit margins grow.

## How to manage labor as a percentage of sales

There's no exact percentage that works for every restaurant, and you'll want to review your process periodically to make sure your labor targets are still working for your business. These steps will help you figure out what labor targets make sense for your total sales numbers and customer service needs.

- ✓ Set realistic labor targets
- ✓ Make adjustments based on your labor goals
- ✓ Track your progress and make adjustments

### Set realistic labor targets

Consistent process and planning are keys to success in the restaurant industry, and managing labor percentage is no exception. It's crucial to set labor targets in order to maintain your margins. Look at both historical and forecasted sales and establish the labor cost percentage you're aiming for. A good starting point is a labor cost percentage between 20% and 30% of sales. This should be done for each individual location to ensure maximum efficiency. We recommend starting at the high end and adjusting it once you have a solid idea of expected demand. Your target can be adjusted at any time if a location's needs change.

### Build schedules according to forecasted demand

Once you've established your labor cost percentage goals, it's time to build your schedule accordingly. You should already be [forecasting sales and labor](#). Use those forecasts to determine what personnel you'll need on staff throughout the week and build your schedule. Make sure you have their wages properly calculated. [This free schedule-building tool can help you build a schedule that tracks labor spend](#).

## Make adjustments based on your labor goals

Now that you have your schedule configured based on your forecasted labor needs and you know your labor targets, it's time for some fine-tuning. If you exceeded your labor targets for specific days, look for areas where you could trim labor costs without sacrificing service levels. If you're under your labor targets, there's no real need to make adjustments unless you have reason to believe demand will be too high for your staff. It's important to avoid understaffing so that customer service doesn't suffer and your team doesn't get overworked. As long as you're comfortable with the amount of labor on a given day, you're good to go.

## Track your progress and make real-time adjustments

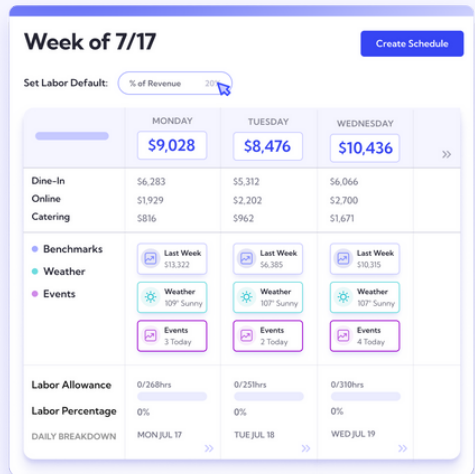
The more data you have, the more you can refine this process. There are a lot of variables that impact demand, like local events and weather. Sometimes your labor targets might be a little bit off, and that's ok. Keep records of how your actual labor cost percentage stacks up to your goals, make notes of things like demand vs. staffing, customer service levels, etc., and incorporate your learnings into future labor targets.

# Using Lineup.ai to manage labor as a percentage of sales effectively

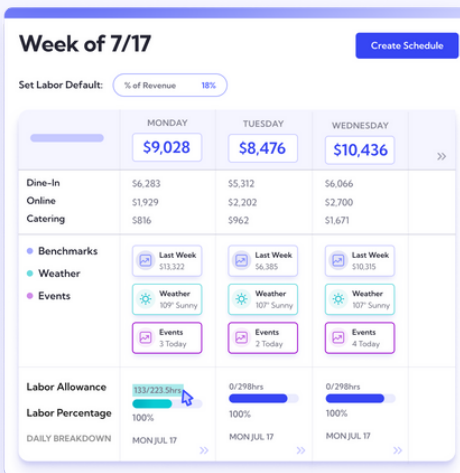
We've built functionality directly into our platform to help you set labor targets, track historical performance, and use AI to forecast labor demands.

## Step 1 - Set labor targets for individual locations

Owners and operators set the labor percentage targets for each individual location. Remember, a good starting point is around 30% of sales, with adjustments made as you gain a clearer understanding of expected demand. Any user with the proper permissions can customize the default labor percentage for any location in a given week.



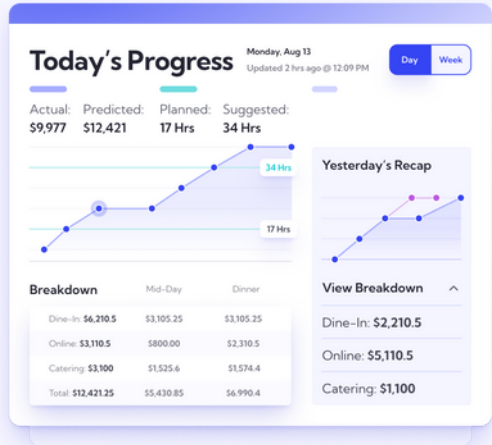
## Step 2 - Location Managers build out the schedules



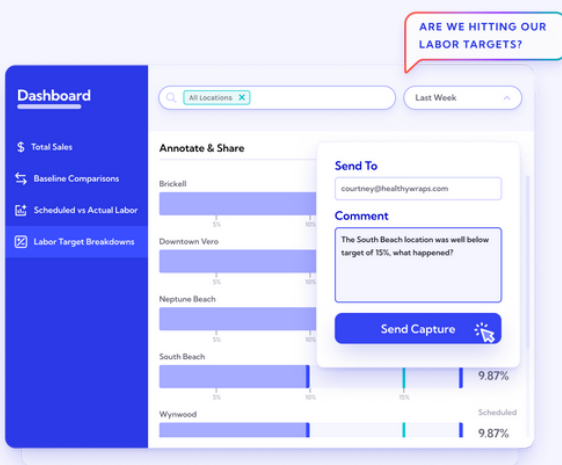
As a manager builds a schedule in Lineup.ai, the projected labor percentage will fill out based on the employee's real wages. The Labor Allowance progress bar will fill out showing how close they are to hitting or exceeding your target.

### Step 3 – Track progress in real-time

The Lineup.ai dashboard will help you keep track of Planned and Suggested hours for the day and week as they unfold. You can see how your sales and labor forecasts stack up to demand, and make any adjustments that might be necessary to either help you hit your labor goals or meet an increase (or decrease) in customer demand due to external variables, like weather shifts or event cancellations.



### Step 4 – Dive into analytics and keep everyone on track



High-level managers, owners, and restaurant executives can use Lineup.ai's reporting function to keep track of how each location is performing with regard to labor targets. If one location isn't hitting their targets, it's worth checking in to determine why and give them whatever assistance they need to get back on track.

## Results

When restaurants pay attention to labor as a percentage of sales, good things happen. After using Lineup.ai to forecast sales and labor, set realistic targets, and build smart schedules, Carrot Express was able to save over \$1 million in payroll.



Lineup.ai significantly dropped payroll for our 17 restaurants by about 300 basis points. Annualized, we should see a 1.1-1.3 million dollar savings.

— Michael Schatten  
Director of Operations of Carrot Express



Interested in using Lineup.ai to manage your labor costs? We'd love to show you how it works.

**Set up some time with the team and start a free 60-day trial!**

## About Lineup.ai

Lineup.ai is a powerful suite of AI tools that utilizes advanced machine learning techniques to provide real-time sales and labor forecasts based on historical data and external factors that impact sales.

With these forecasts, managers and operators can plan for demand with standardized processes that optimize schedules, freeing up their time to focus on driving revenue and ensuring outstanding customer and employee experiences.