

Focus on the Top Line

Do Your STANDARDS Drive **GROWTH?**



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If you know exactly how much an item costs to produce and can consistently achieve that cost equation, you simply need to drive the number of units you sell and the revenue per unit to maximize your profitability.

I use the word "simply," but, in reality, in a highly competitive market revenue is not necessarily that easy to generate. If driving revenue is the key objective of senior management, this singular focus can create well above-average results. The challenge an organization faces is freeing up the time needed to thoughtfully create and drive revenue.

Focusing on the top line requires operating standards that are so well established and applied that when a unit is sold the cost of production and delivery matches as projections. This concept applies to any operation that produces products for sale, and is what the hotel business does, day in and day out. The industry produces clean rooms, food products from pre-set menus, checks people into and out of rooms, as well as other related activities, every single day. I fully realize that as part of the hospitality industry there are many more aspects of the business than just being a production facility. In essence, the hospitality industry considers the varying job functions, coupled

with the interpersonal aspect, as part of the “production” process. We also understand from other service-related businesses that the interactive part that is central to the overall experience is being reduced to “mechanical” tasks by self-service. A simple example is the airline industry. The service agent is less and less a part of the experience with the advent of the kiosk and online reservations / boarding passes. The hotel industry, in some cases, is moving in the same direction. But even with this shift toward self-service, standards that are well-defined and developed, are still essential in driving overall performance. Keep in mind, there are boundaries as to how much human interaction can be reduced and workloads shifted, in the “production” process.

Standard: The amount of time it takes to meet the desired service quality for a task.

Defining and Developing Standards

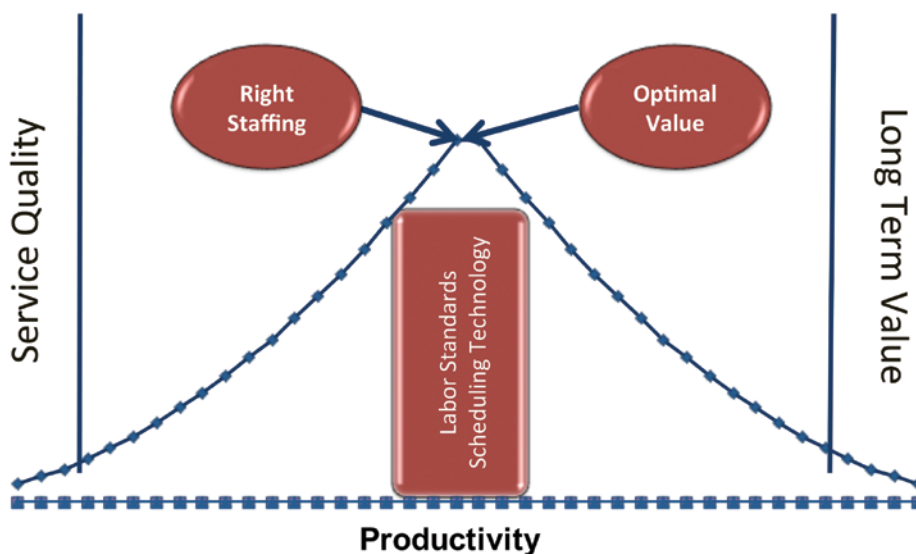
As I previously noted, it is imperative that standards be well-defined and developed,

especially when an operation is focusing more time on revenue generation. Having developed, evaluated, and defined standards for many years, one observation that comes to mind is that these “production” (or “labor”) standards frequently do not correspond as closely or as accurately as they could. If an organization is going to apply these standards

to operate a successful business day-to-day, those standards need to be more than just monthly averages, specifically for labor use. Sometimes, labor standards are simplistically developed under the presumption that the correlation of labor required to service the specified number of units is completely fixed, for example, one minute per unit, regardless of intensity. In this scenario, the hours required for unit servicing is consistent each day and only driven by the unit sales. However, this is not the best method for the hospitality / service based businesses.

Productivity, Quality and Long Term Value

Service Quality Productivity = Increased Asset Value



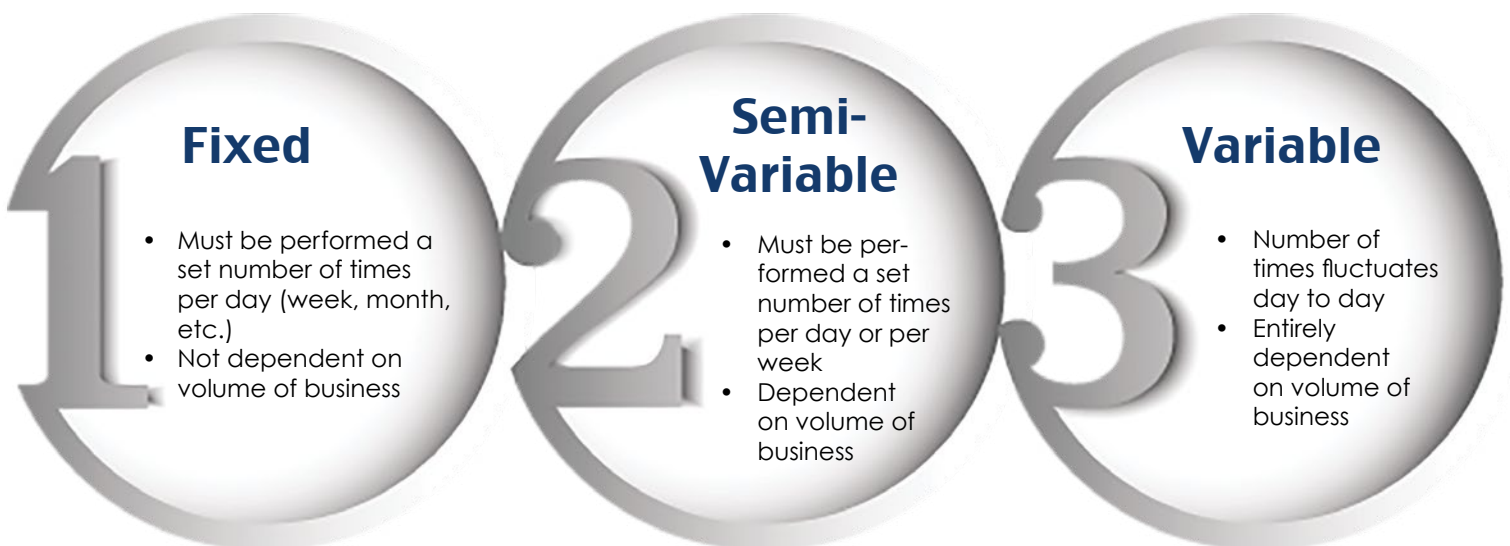
Standards and the Hospitality Industry

For the hospitality industry, which is the quintessential just-in-time operation, this fixed approach, for the most part, simply does not work. Except for the process of room cleaning (production) or banquet set-up and service, every other part of the operation has a few key components that make a singular production rate inaccurate. Every other department is a combination of fixed, semi-variable, and variable work. Using these definitions, **fixed** is a position, based on an asset's positioning, that is filled at the time the doors are open, even if volume is very low. An example is a door person or concierge in an upscale property. In some cases, these positions may be shared with another position, but the function needs to be available at all volume levels. The next definition is **semi-variable** which is in essence a step function for adjusting the amount of labor needed to service customers accounting for varying volumes. A few examples of these are

Host positions, where one person can handle a range of volume, i.e. 1 to 60 and after 60, another person (number of hours) needs to be added for a second range which may be the maximum or another person can be added, let's say over 150. This is likewise true for kitchen cleaning, food prep, general cleanup and other positions. The last component / definition is a **variable** which would apply to food production, dish washing check in / out and other functions which are entirely dependent on volume of business.

Standards, if they are to be truly accurate, need to be developed accounting for these three components of labor application to volume. Additionally, there are additional aspects that need to be considered for the standards to be fully effective and minimum costs are to be achieved. Economies of scale are also important if the standards are to be successful in daily operations. In some parts of the operation, the production rate per unit changes as actual volume increases. Production rates may even be reduced as volumes increase. For example, food produc-

Types of Work



tion for 500 people (same menu) does not take four times as long as for 125 people. Beverage service in high volume operations may reduce production rates to increase total revenues. Therefore the operating standards, (number of hours required) need to reflect production rate changes in certain parts of the operation.



There is another aspect of the business that needs to be fully accounted for in the scheduling process, the integration of production standards with the pattern of service demand, which delivers a direct impact on the amount of labor needed. The resultant labor needs are impacted by this factor and therefore, if the term “standard” means how much labor is necessary to service guests, service demand patterns are a key component defining an accurate requirement.

A key point to recognize in developing and using labor production standards is that service

/ hospitality businesses do not have the “luxury” of straight line production that can be held in inventory. Just in time means that at the point a guest wants to “consume” the product it is prepared and delivered in a relatively short time frame—minutes in essence. And to do this, standards need to reflect fixed, semi-variable and variable components, if production needs are to be accurately established. Once completed, management can focus on volume and revenue generation, recognizing that regardless of fluctuation in volume, the adherence to the operating standards at these varying volumes will deliver on the service and product promise.

Finally, I would leave you with a couple of thoughts and questions regarding your own labor standards. Are your daily standards the same as your monthly budget average standards? If so, you have the opportunity to improve. Do your standards separate fixed, semi-variable, and variable activities? If not, you have the opportunity to improve. If your standards, in higher volume operations, do not reflect service demand patterns, you have the opportunity to improve. Do you review labor performance each day recapping actual volume served and the recalculated labor need, based on this actual volume? If not, you have the opportunity to improve. And lastly, if everyone is not looking at, and aware of, daily labor use, you have the opportunity to improve.

Hope this is helpful and, through its application, your business results improve. 🇺🇸

Mark