A **UNIFocus** White Paper

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LABOR MANAGEMENT IN THE HOSPITALITY INDUSTRY

A Guide to the Process and Systems

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Imagine that each time you check into a luxury hotel, a team of associates are personally assigned to take care of all your needs. How about checking into a limited service hotel and having a valet parker, doorman, bellman, concierge, and front desk agent (not all the same person) there to greet you? Whether a guest stays at a five star hotel or a one star hotel, all hotels have a “limit” to the level of service that is provided. The guest satisfaction for both of these experiences would likely top the charts but the owner’s satisfaction with profitability would hit an all time low. The level of service is dictated by both the needs and expectations of the guest as well as the labor cost associated with the service. The “Service Wow” provided to the guest comes at a cost and that cost is labor.

Now imagine checking into the same luxury hotel and finding only one person standing behind the front desk doing his best to register a line of guests. During this process the clerk is apologetic about the wait and the fact that the guests will need to park their own car as well as carry their own bags to the guest room. The clerk mentions to the guest that senior management has asked all departments to reduce their labor expense as much as possible in order to improve the bottom line. While the owner may now feel the profits are being maximized it won’t take long for the drop in guest satisfaction to translate into fewer repeat guests and negative word of mouth “publicity” that ultimately will result in declining revenues and profit.

How does the smart operator balance guest satisfaction against maximizing profits? This is a very similar dilemma to the age-old challenge of balancing average daily rate with occupied rooms.

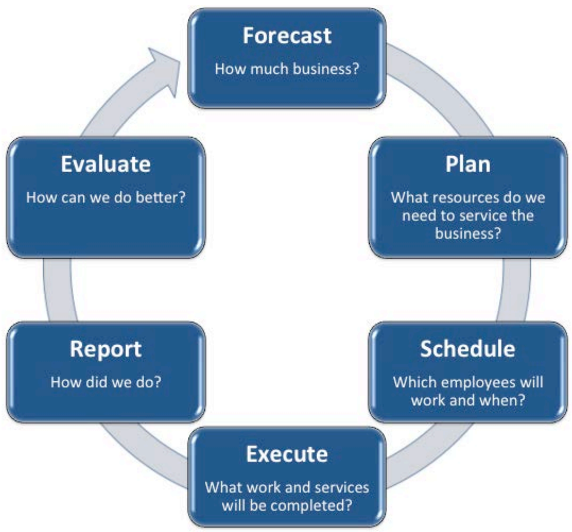
The largest controllable cost in most hospitality businesses is labor. Hoteliers have known this for decades and have incorporated many different processes, systems, and procedures to help manage these costs. In the past decade Labor Management Systems (LMS) have become more widespread in the industry as more organizations adopt some form of LMS. The current opportunity is to better utilize all the features of LMS across the hospitality industry. Many hotel companies are using bits and pieces of LMS but not utilizing all the components. Research at hotels shows that LMS range from no formal approach to sophisticated systems that incorporate forecasting, scheduling, time data management, and labor reporting. Most hotels are somewhere in the middle using Excel-based spreadsheets or basic time and attendance systems.

Another way to consider LMS is to also understand what it is not. It is not simply a basic time and attendance system. It is also not a set of tools to force feed payroll cost reductions across the board without appropriate levels of discussion, even though LMS systems can be instrumental in creating cost reduction action plans. We think it is time for the industry to come to agreement on the core features that constitute an LMS program and the specific minimum attributes that each feature should possess in order to qualify as an LMS. This article takes a two-step process to understanding labor management systems. The first part looks at the basic principles and processes of labor management. The second part (which will be in the next edition of FocusEd) explains how a labor management system can be used to better manage these processes.

LABOR MANAGEMENT PRINCIPLES AND PROCESSES

Let's start by defining the essential features and attributes of labor management for the hospitality industry. Labor management can be viewed as a six step process which must be completed on a weekly basis.

These six steps must be incorporated into a business' LMS in order to effectively manage labor. While each part is distinct, each is part of an integrated whole.



FORECASTING

At its most basic level, labor management forecasting is predicting weekly business volumes at the property level. Most managers have basic information about how much business is expected next week (it will be busy, average, or slow). Some have precise predictions based on records they have kept and spreadsheets they have used to calculate projections. Virtually all hotels forecast rooms and many forecast food covers (though fewer do so by meal period).

This is an important step because it allows the manager to better plan and schedule the resources that will be needed for the upcoming week. Not having an accurate forecast can lead to either too much labor or not enough labor to provide the expected level of service to the guests. The two key components are:

- Forecasting all key business indicators
  - A Key Business Indicator is a driver that precipitates labor needs. KBI's include Rooms, Guests, Arrivals, Departures and Covers
- Reviewing forecast accuracy

FORECASTING KEY BUSINESS INDICATORS

Most hotels forecast occupied rooms. Occupied rooms are a key driver of labor for many positions throughout the hotel. Beyond occupied rooms, it is important to forecast other key business volumes across the hotel.

The following criteria are the minimum that should be forecast at each hotel:

- Occupied rooms
- Arrivals/departures
- Breakfast/lunch/dinner/overnight covers for all food outlets
- Banquet covers

- Available guests

If a business has any other key drivers of labor, those criteria should also be forecasted. For example, a hotel that provides valet parking would want to forecast parked cars for the labor management of valet attendants and cashiers. Likewise, resorts that offer golf will want to develop anticipated volumes of golf rounds and their impact on pro shop and grounds personnel. Regardless of the key drivers forecasted, there will need to be an understanding of how each driver interacts with another. An example is forecasting restaurant covers. The covers generated by total hotel guests will be directly impacted by the number of those guests that are part of a group with a planned banquet event.

Reviewing Forecast Accuracy

Forecasting key business volumes is only helpful if the data is accurate. A business that forecasts on a weekly basis but doesn't measure the accuracy of that forecast is only implementing half of the forecasting process. As part of the forecasting cycle, a weekly review of forecast accuracy should also be in place.

Reviewing forecast accuracy is simply comparing the forecasted business volumes with the actual business volumes. If 800 occupied rooms were forecasted for last week, were 800 room nights actualized? If the actual number of occupied rooms was 500 or 1,000, the improper forecast can affect guest service and profitability. By reviewing forecast accuracy hotel leaders can better understand how well they are predicting future business volume. Patterns of large discrepancies week after week should be investigated so that the forecasting process can be refined.

Planning

The check-in experience at a luxury hotel would be truly incredible if, upon arrival, each guest was personally seated on a chaise lounge and carried by four staff members up to his or her room, feet never touching the ground. Although a wonderful experience, this level of service is not expected by the guest and would significantly impact profitability. In order to ensure the proper balance of guest satisfaction and profitability, as well as employee satisfaction, a labor management plan is imperative.

Planning is the heart of Labor Management. Unfortunately, for many, this approach directly contradicts the belief that hospitality is all about spontaneity, reacting to the needs and expectations of the guests. Rather, a successful hotel operation plans its labor requirements to meet its business demands while still having the flexibility to handle the unexpected day-to-day challenges. An effective labor plan is only as good as the labor standards on which it is based. Labor standards define the number of labor hours to support the defined service levels required for a specific volume of business. Whether it is carrying guests on a chaise lounge or simply having one employee to manage the hotel at night, labor standards can vary significantly because different hotels have different goals for service and profitability. Ultimately, each business must establish its own labor standards that balance guest satisfaction, employee satisfaction, owner satisfaction, and profitability. The success of an effective labor management program requires the full support and agreement to these standards at all levels of management and can be directly measured through guest feedback.

Most hoteliers commonly use standards for guest room attendants. For example, one guest room attendant can clean 16 rooms in 8 hours. On the other hand, valid labor standards are less common in other operating departments such as culinary, stewarding or laundry. Every position in the hotel must have a defined labor standard for effective labor management.

Developing effective labor standards often involves analyzing the way work gets done through observation or process analysis. Effective labor standards distinguish between fixed and variable work and, where appropriate, incorporate guest demand patterns (arrivals and departures, outlet meals, etc.). A key to effective labor management is to develop labor standards that are as variable or flexible as possible in order to reduce fixed labor. For example, at most hotels only one front desk agent per shift is regarded as fixed. In order to "open the door" for the day, one agent would be required. Any additional front desk agents would be variable based upon the volume of business. Thus, the labor standard would distinguish between the fixed and variable components.

Truly understanding the difference between fixed and variable staffing is important for all hospitality managers. For example, a staffing guide in a restaurant may call for a minimum staffing of eight servers and a maximum of twelve servers. The question to ask is, "If only one guest showed up for a meal that day, how many servers would be needed?" It would probably be less than eight. The opportunity at many hotels is that the staffing guidelines or labor standards are based upon the average volume and truly do not look at the minimum level required and "flex up" from that point. This is an important distinction and one that is more easily made if there are carefully thought out standards.

While it is common in the industry to express labor standards on a per shift basis (80 check ins and check outs for the front desk, 40 covers per server), more precise or detailed standards are desirable. Standards should be tied directly to productivity (volumes/hours) so that the most accurate number of required labor hours is determined. For example, if the houseman's productivity goal is 12 minutes of labor per occupied room the labor standard should be stated as simply as that, or as 5 rooms per hour. Another example that is often overlooked is determining the flow of business volume during a shift. The breakfast shift may project a total of 200 covers but the flow of those covers is not constant throughout the meal period, which means the number of server hours scheduled at opening would not be the same during the peak of the meal period. Knowing the true number of labor hours needed helps to facilitate planning and staffing that may include shorter shifts or cross-utilization of staff.

Organizations need to understand that standards are a measure of productivity and cannot be expressed as a percentage of labor dollars to revenue. One of the biggest misconceptions on the part of less experienced managers using labor management for the first time is that labor should be managed on a percentage of labor dollars to revenue. Using this approach often leads the manager to think that more labor can be used in times of higher revenue. This is not a proper approach to labor management. If higher volume is driving the higher revenue, then more labor should probably be used. But if a higher average rate is driving revenue, then labor hours should remain unchanged as the volume is unchanged. For example, if a guest room is sold for $200 per night on weekdays but only $120 per night on weekends, it still takes the same amount of labor to clean the room regardless of how much revenue is being generated. The hotel should not be using more labor to clean the room during the week simply because the rate is higher.

The essential component of planning is relating anticipated business volumes to the required labor hours. This step places the focus on the labor needed to satisfy all the goals of the hotel (customer, employee, owner, and financial). Too often, managers go directly from a forecast to a schedule, leaving out the planning step. Inevitably, starting with the schedule leads to a focus on employee preferences and the development of a schedule which best satisfies those preferences. There is certainly nothing wrong with a schedule that best satisfies as many employees as possible. But developing the schedule without regard to when the labor is most needed can create ineffectiveness in service and inefficiencies in labor.

Standards are not something that are developed once, filed in a binder, and stored on a shelf to collect dust. They are a dynamic tool to be used when reviewing alternative ways of improving guest satisfaction or seeking ways to lower labor costs with minimal impact on guest service. The standards also need to be reviewed when operational changes take place. For instance, we have all seen the competition over who has the most luxurious bed in their guestroom. If an operator decides to increase the number of linen layers or pillows on the beds then it would be necessary to evaluate what the real impact is on the amount of time a housekeeper is allotted per room.

SCHEDULING

Once a manager knows how busy the operation will be (forecasting) and the proper standards (planning) that drive the use of labor, it is time to move on to the third step, scheduling. Scheduling involves a comprehensive effort to align guest demand, financial goals, and employee skills and preferences.

It is critical to start the week with an accurate schedule. Many labor management challenges occur when a schedule does not meet business demands. Over-scheduling essentially wastes payroll dollars while under-scheduling does not provide the proper level of guest service. The schedule must match employee work times with the business volumes. Business demand does not allow the hospitality industry to be a “9 to 5 business”. The scheduling of employees must take this into consideration. While it is important to consider employee preferences in scheduling decisions, these preferences should not be the sole driver of the schedule.

EXECUTING

Executing is the first step of the labor management process that is outside the “set-up” stage. The three steps which lead to executing all occur prior to the start of the work week, making sure everything is prepared for a successful week. This step begins the minute that the work week begins. This is where the manager ensures that the staffing levels meet the projected business volume.

Execution is a day by day process. Executing according to the labor management plan takes a daily focus by the manager. Areas to focus on include:

- Monitoring whether the actual business volume is in-line with the forecasted volume.

- Reviewing whether changes to the schedule need to be made in order to handle volume changes or employee situations.

- Managing work schedules to eliminate unnecessary hours worked or overtime.

Reporting

Labor reporting is an essential component of labor management. Labor reports allow managers to answer the question, "How did we do?" Similar to how a report card in school measures a student's performance, labor reports measure the labor management performance of the operating managers. Labor reports should be used by all levels of the organization.

- Junior/mid-level managers should be reviewing reports daily to identify successes and opportunities for improvement.

- Senior level managers should be looking at the overall labor management effectiveness of the business.

- Corporate/regional managers should be reviewing labor management reports across businesses, looking for labor management trends, patterns and best performances.

For many organizations, labor reporting simply involves senior management poring over data in order to find the failures of middle management. This approach can be ineffective and demotivating to the individuals that can drive profits.

In essence, a strong labor management reporting program provides a management information system. This system helps an organization move from a top-down critique where only senior managers know what's happening to a bottom up critique in which junior/middle managers tell senior managers what has happened and what can be done about it. Also, labor management reports can provide information for middle managers in dealing with needed additions to staff. Reports can be instrumental in pointing out where there are staffing shortages that can be satisfied in the short-term through cross-deployment. The same system, however, must also be able to support the decision to add positions to staff as part of a longer term strategy.

The key items to be measured in labor management reports are:

- Hours worked

- Overtime hours

- Labor standards

- Productivity

- Forecast accuracy

EVALUATING

Reports give you information. Evaluation is the process of turning information into actionable knowledge. Reporting tells a manager what and evaluation tells a manager why (or leads one to ask why). An effective labor management process contributes to the evaluation process by presenting variances for you to review and highlighting exceptions.

Many organizations focus on benchmark comparisons within the industry. The danger this presents is that you are susceptible to managing expenses relative to these averaged ratios. The right ratio is the one that translates the labor standards as a ratio to volume, not the payroll dollars against revenues. Payroll dollars vs. revenue are susceptible to fluctuations in average unit price while productivity ratios provide a stable metric that is valid from year to year.

An effective evaluation tool shifts the focus to monitoring productivity rather than the percent of dollars spent.

CONCLUSION

For some, labor management is what managers get paid to do, and there is no need for technology. But as the technology has caught up with the concepts, more and more organizations are looking to automate this process. LMS programs are certainly not as widely used as other technology solutions. But we believe that they are increasingly desired, will become increasingly common, and that the first step in acquiring an LMS system is understanding what it is (and is not) and what it should do for your organization.