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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.

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 volumes
- Reviewing forecast accuracy

FORECASTING KEY BUSINESS VOLUMES

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

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.