



Determine Your True Labor Costs

Painting
the
Complete
Labor
Picture

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The cost of labor is one of the largest expenses businesses must cover. According to the Bureau of Labor Statistics, labor costs in the food and hospitality industries are as high as 70 percent of revenue. It's imperative that organizations understand where their money is going.

A Helpful Hypothetical

To compute your labor costs accurately, it's vital that you include all the relevant components in your calculations. These include wages and salaries, benefits, payroll taxes, and overtime, if you pay it.

An example might be helpful. Imagine you direct the foodservice operation at ABC Elementary school. Here are its financials for one day:

Total revenue (including reimbursements)	\$1,300.00
Total Labor	\$780.00 (60 percent)
• Wages	\$468.00
• Fringe benefits/taxes	\$312.00
Total Food	\$455.00 (35 percent)
Miscellaneous	\$65.00 (5 percent)

There are several other numbers to keep in mind for this hypothetical example:

Labor-related Costs

- ABC Elementary has five foodservice employees who work a total of 28 hours per day.
- Labor costs include the manager's seven hours. The manager's wages cost \$150.00, and fringes cost \$50.00.
- Employee breaks are paid for, amounting to a total of one hour per day. Lunch is not included in the total hour figure.

Meal-related Costs

- ABC Elementary served 375 reimbursable meals to students, and eight full meals to adults.
- Student à la carte sales amounted to \$225.00, and adult à la carte sales totaled \$65.00.
- Per-meal reimbursement for a free lunch is \$2.93. Commodity value per meal is \$0.2325.
- A paid lunch costs \$3.00.

Making Your Calculations

Use the figures for ABC Elementary to determine its cost of labor, labor cost per meal, and meals per labor hour.

Labor cost for the day	\$780.00
Labor cost per meal	\$1.64 (\$780 labor cost/475 meals)
Meals per labor hour	17 (475 meals/28 labor hours)

How to Get Accurate Figures Consistently

Program managers often have difficulty determining their true labor costs. However, taking the following three steps may help you to arrive at accurate figures routinely.

1. Include fringe benefits, retirement, and taxes in your labor costs.

When determining your labor costs, be sure to include wages plus fringe benefits, as well as retirement, and taxes, such as Worker's Compensation. In the ABC Elementary example, labor costs were \$780.00, which included wages, fringe benefits and taxes. Remember to include break time and lunch hours if employees are paid for breaks. Managers' pay should be included in the labor costs, too.

2. Convert à la carte and extra sales into Meal Equivalents

Revenue from non-reimbursable food sales, as when students purchase two meals in one day, and à la carte sales, need to be converted into Meal Equivalents (ME). This is the only way you can get an accurate number of meals.

ABC school had 383 meals total: 375 reimbursable meals plus eight adult meals, plus 92 meal equivalents. Use the following formula to determine meal equivalents:

À la carte Sales or Extra Food Sales Revenue

$$\text{Free Lunch Reimbursement} + \text{Commodity Value per Meal}$$

In this case, student plus adult à la carte sales was \$290.00. So you would divide \$290.00 by \$3.16 (\$2.93 free lunch reimbursement + \$0.2323 commodity value per meal), to get a total of 91.77 meals.

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