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# CHANGE WHAT YOU THINK TO CHANGE WHAT YOU GET:
## A LOOK AT THE STATE OF THE RESTAURANT INDUSTRY

*Employees don't quit working any more than guests quit eating.*

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The restaurant industry is a fast-moving mash-up of more and better competitors, increasingly compelling alternatives to restaurant dining (whether in-restaurant, takeaway, or delivery), a shrinking labor pool, mounting government regulation, growing pressure for wage increases, and changing consumer and workforce demo- and psychographics. No wonder industry insiders feel under attack. The forces acting on the industry are changing it from what was seen as "hospitality" to something larger that puts it in a basket with other related industries and competitors that could be called the "eating" industry. If so, the new competitive base is any entity that sells food not wholly prepared at home.

Not surprisingly, the effect of a growing competitive base is to intensify the linked challenges faced by restaurant operators:

- Hiring, developing, and retaining quality management and hourly employees

- Ensuring the defining characteristic of a strong brand; namely, *a consistently predictable customer experience*

A larger competitive base is good for employees as it increases employment opportunities at all levels, making it more difficult to harness the force of *Stable Quality Management* at the unit-level (SQM). *Stable Quality Management* at the unit-level is the key to a consistently predictable customer experience as it is the cornerstone of a restaurant that is *Fully Staffed with Fully Trained employees* (FSFT). It is the restaurant-level energy generated by these two factors that builds a strong brand and real growth in sales and profit. Virtually any experienced operator who reads this paragraph would agree with the success factors described and recognize that they have always been true.

In light of these truths, it's amazing that for the 40+ years I have worked in the industry, high turnover has largely been accepted by operators as a fact of life and something they simply had to work around. Unfortunately, these workarounds often compromise the customer's experience by reducing food quality, being short-staffed, putting undertrained staff on the floor, asking employees to work double shifts, and hiring "warm bodies." I thought the acceptance of high turnover was wacko when I first encountered it and still do: If you believe that a compelling restaurant experience is about great food on the one hand and great service on the other, why compromise success by allowing high staff turnover? Hopefully, a picture is worth more than a few words; if so, then my bucket metaphor for restaurant staffing will ring a bell with you.

The bucket represents the ebb and flow of a typical restaurant staff – your staff is in the bucket. Typically, the bucket is filled through activities such as recruiting and hiring. The holes in the bucket represents staff turnover, and the more holes, the higher the turnover rate. For much of my time in the industry, staffing a restaurant has been a numbers game where operators focus their attention on the opening, trying to fill it faster than it is drained through turnover. Despite the fact that almost no one would argue with the importance of being fully staffed with a fully trained crew, this is pretty much how the restaurant industry has functioned for a long, long time, resulting in being *FSFT* with management and hourly employees an illusory target. It's hard to reconcile this willingness to operate understaffed with the often heard call to "exceed guest expectations!" as it simply cannot happen without being *FSFT*. My guess is that doing so absent *FSFT* results in frustrated rather than motivated employees.
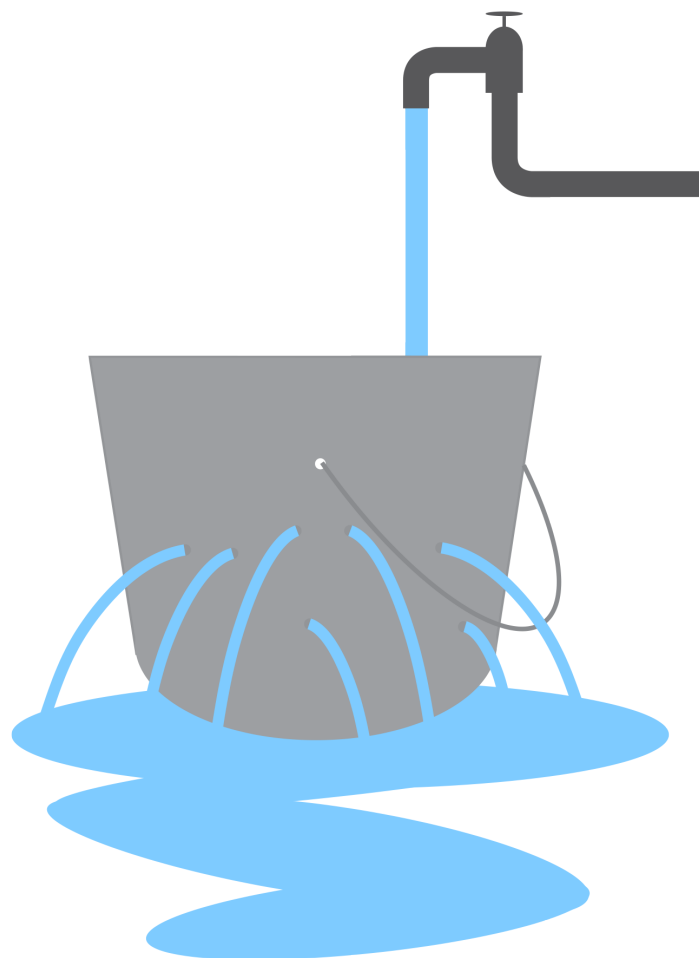


Figure 1.  The Staffing Numbers Game

Along with other factors, the result of this situation is obvious: *Great restaurants are a small part of a very large industry.* Inevitably, these also happen to be restaurants that are *FSFT.* While I'm happy for those operators in the minority, the future of those in the majority is concerning given the consumers growing options. In the bright light of the state of the industry described above – even with all of the labor saving technology on the table or in the works – the prospects for sustained success in a reformed industry are dim unless restaurant operators take action to turn the imperative of *SQM* and being *FSFT* into the reality of the customer's experience.

## THE ROOTS OF THE PROBLEM

I've never met a successful restaurant operator who is short on mental horsepower. The restaurant business is way too complex for that. So why is it that smart people can believe it is possible to operate a successful restaurant or chain of restaurants in the face of chronic understaffing when you know that *SQM* and *FSFT* are key to the ingredients of a restaurant – great food, great service, and a fair price? Everything else – décor, location, clientele – is an add-on to a restaurant that already works.

**A Comment on Quality and Value**

While some restaurant leaders may think so, there is no research to support that consumers expect to pay less than full price for what they receive, but they can be trained to be that way as a mediocre experience – one where the consumer *always* feels he or she has received less than what has been paid for – may demand the motivational force of a deep discount to bring the real price of the experience in line with its perceived value. If I am correct, the upshot of this observation, combined with the increasing quality of the alternatives to restaurant dining, will be another change in the industry: Only the best-in-segment restaurants will prosper. Being a preferred choice demands an experience that commands full price. If I am correct, in the very near future, there will be fewer, better, and busier restaurants built on a foundation of *Stable Quality Management* and being *Fully Staffed with Fully Trained* employees.

**Thinking and Rationalizing Look Alike**

Ironically, it would be wrong to blame restaurant leaders for the state of the industry, except for those who seem to have forgotten the three ingredients of a great restaurant. At the same time, it would be absolutely on the money to blame them if the industry continues to lose its position with consumers by not attacking the challenge presented by employers who have upped their game in order to attract quality employees away from the restaurant industry. These options not only suck up customers, they suck up good employees. This is a battle the industry is now in and it will not be won through the usual methods; i.e., marketing and price cutting.

It's a battle that will first be fought in the heads of the industry innovators and, secondly, by tending to the techniques of ensuring *SQM* and being *FSFT*. If you are one of these innovators, the first thing that you will have to do is to think about the industry as an employer of choice and then figure out how to make it one. This is a radical change from the status quo that many leaders will not be able to make. BJ Stone, founder of Stone's Cove KitBar, is one of these innovators.

Talking to him before the first opening, BJ made it clear he *believes* that the industry is a viable career. In BJ's view of the industry, it "has abused workers for so long by over working and under paying that it's not a real job because real jobs don't treat employees that way." He set out to enact his beliefs by hiring *only* employees willing to work four shifts with the full expectations that they could earn a living wage by doing so. It is now six years since the opening and he has the impression that ChefTenders [what employees are called] are averaging between twenty-five and thirty dollars per hour. This means that some ChefTenders are making $60,000+ with rumors that some may be earning $70,000+." Is it working? As of the end of June, 2017, management turnover YTD is 0% and hourly turnover is 28%.

To top it off, BJ's KitBar receives a solid four stars from Yelp and four and one-half from OpenTable. If you read the reviews on Yelp, OpenTable, or TripAdvisor, what you will find is that Stone's Cove is well received by the professional diner. As a result, Stone's Cove's sales are as strong, and often stronger, Monday through Thursday as they are on Friday and Saturday. Apparently, the quality of food, service, and people matters (Duh!). From the employees' perspective, it has served to reduce the number of "bad" shifts, further enabling a career for the ChefTenders. The hardest part of seeing what BJ has done is to believe it can be done. That's a paradigm shift that many restaurant leaders are not willing to make.

In contrast to innovators like BJ, for as long as I can remember, the central employment assumption of the industry has been this: *Working in a restaurant is something that you do until you get a real job.* I have tested the veracity of this assumption countless times by asking experienced restaurant people where they started their careers. My last opportunity to ask the question was a few days ago when five members of a large restaurant company's leadership team visited our office. In the course of the day, I asked them: "How many of you started your careers working in a restaurant?" As so often happens, all five raised their hands. It turns out – just as it is for thousands and thousands of other people – their real job is working in a restaurant, even if they had to try other things only to come back to a life they love.

Are we obtuse, or is it that restaurant leaders have been had by something social scientists call an *availability cascade*. An availability cascade is a self-reinforcing cycle that explains the development of certain kinds of commonly held beliefs. The current puff-up in Washington, DC over the Trump-Russia connection in the absence of any evidence is an example of an availability cascade as is *working in a restaurant is something that you do until you get a real job*. It's a simple and sensible explanation for the revolving door employment practices of the restaurant industry. It's also an acceptable protector of the ego of restaurant operators when a good employee leaves them only to go to work for a competitor. Despite the cost to quality and the bottom line of this belief, it is one that makes sense to a whole lot of restaurant leaders, except when they review their own career.

Most important, for as long as it has been in place, this belief has determined the policy decisions and behavior of restaurant leaders. It stands to reason that if you think of employees as part-time and temporary you are going to manage them differently than if you think of them as potential career employees likely to make a long-term contribution to your company. Unfortunately for the industry, this belief has also contaminated the way leaders think about restaurant managers. The belief has outlived whatever usefulness it may have had to become an obstacle that diminishes the industry's ability to compete for the loyalty of quality management and hourly employees, and impede the multiplication of the great restaurants that *SQM* and being *FSFT* enable.

## A CALL TO ACTION

Imagine the bucket pictured in Figure 1 full of water instead of employees and sitting just inside the entrance to your restaurant and leaking water all over the floor. Would you just stand there? Obviously, not; concern for the safety of your customers and the reputation of your restaurant would cause you to take immediate action to remove it and clean up the mess. Switch back to thinking about your staff in the bucket and what is really being leaked. It's not just employees, but your ability to operate a great restaurant. One with great food, great service, and a personal connection between guests and employees that enables you to charge a full and fair price.

**A Turned Tide**

What used to be an industry that favored the employer is now one that favors the employee. There is no shortage of places to work in the restaurant industry or for its competitors, but there is a growing shortage of people to fill these openings. This is a fact of life that is crippling the industry and that ought to be dealt with in the smartest, most useful, and least disruptive way. That way does not include doing what we have always done before, only faster, better, and at a lower cost. It is doing something that has never been done before by most restaurant leaders.

When leaders are faced with the need for change, but can't recognize that the problem is because of their beliefs, change is virtually impossible. That's true even when the change will enable unimagined levels of success. The leaders of the Democratic and Republican political parties are a good example of this situation. They will remain stuck in conflict-gear until one or the other realizes that it is they who need to change and not the people they want to govern. Bold to say, but the leaders of many large restaurant companies are in this same situation: Blinded by the comfort of doing what they have always done, rather than stepping up to the opportunity right in front of them that is posing as a problem.

**Team Members are Trees in a Restaurant Industry Forest**

Restaurant leaders face a forest of strategy, planning, reporting, opportunities, problems, a fast-paced opening schedule, and so on. The sheer complexity of this view makes it hard for them to see that the emerging threats to success cannot be beat with the same old tools. I've already spoken to the first tool: Change the way you think. Think about employees, particularly unit management and hourly employees, as a keystone of success that has to be strengthened and protected.

It's been done. There has always been a restaurant company here or there or local operators such as BJ Stone that manage to operate *FSFT*. Speaking tactically for the moment, for many restaurants, reducing employee turnover is the single largest opportunity for profit improvement. In short, the difference in turnover rates can be measured in dollars.

For example, studies by the National Restaurant Association, People Report, and the Center for American Progress all cite similar numbers for the cost of turnover. The average cost of an hourly turnover event (i.e., one employee who leaves) is approximately $5,900. For managers, the number is calculated as fifty to seventy-five percent of their base salary. When you look at an industry turnover rate pushing up toward 80%, it is misleading.

**Kidding Yourself with Numbers**

Operators seem not to notice that when an employee quits, he or she often goes to work for another restaurant. To the extent that I am correct, industry turnover is much, much lower than 80% even though restaurants may experience that level of turnover. For the industry, my best guess is that the number is roughly one-third of the reported number. We have led ourselves to believe that our industry is high turnover when, in fact, that is not the case. So what is happening? *People are quitting people and churning restaurants while being loyal to the industry.* It's not the work they are quitting, but where their work takes place. Stone's Cove is a good example of what happens to turnover when a restaurant becomes a good place to work: Employees stay and get very good at their jobs. This makes customers happy and happy customers make for a happy P&L. It's that simple - except for the changing your mind part and implementing the details of a good place to work. In the meantime, restaurant operators are leaving a ton of money on the table, and seriously compromising their (and the industry's) ability to compete for increasingly scarce labor resources and food dollars.

Generally speaking, the place to start building retention is with managers. That's because the turnover rates of managers and hourlies tend to run in parallel, with high management turnover being a factor in high hourly turnover. There are exceptions. For example, I have seen instances where management turnover is quite low, but hourly turnover is high. In these situations, the source of the difference can usually be linked to a wrinkle in the culture that favors the management employee experience over the hourly employee experience.

What a lot of people fail to recognize is that cultures are not monolithic; instead, even within a strong and viable culture, you will find sub-cultures; e.g., a management culture and an hourly culture. When these two cultures are different in ways that favors one group at the expense of the other, things like differences in turnover rates will be inevitable. Having said that, I have never seen a situation where hourly turnover is low while management turnover is high; likely, that is due to the fact that it is virtually impossible to sustain an enterprise where the experience favors followers over leaders. My rule of thumb is this: The quality of the manager employee experience sets the upper limit to the quality of the hourly employee experience, and both set the upper limit to the quality of the customer experience.

## IF YOU AREN'T ALARMED, YOU SHOULD AT LEAST BE CONCERNED

In addition to the factors that opened this paper, there are other emerging forces for radical change – only a few of which appear to favor the restaurant industry. The choice of where consumers spend their food dollars is already ginormous and forecasted to continue growing. At the same time that consumer options are increasing, the absolute number of consumers is declining as indicated by a national birth rate on the order of .81 percent. The upshot: More choices than ever before chasing fewer consumers than ever before. That is an equation for disaster for those that don't change in order to improve their ability to compete.

As a result, the restaurant industry of the future will be characterized by fewer but better restaurants in each segment that provide full value. The keys are what you might expect: *SQM* and *FSFT.* The only way that these keys will be turned is for operators to rethink labor; i.e., **being an employer and career of choice**. Part of my reasoning is a study that I read more than thirty years ago that reinforces the need for this mindset. In a nutshell, its conclusion was that **only** the best company within an industry segment **consistently** returns a profit. While the study was not focused on the restaurant industry per se, I can't think of any reason that the findings shouldn't apply equally to it and the competitors within each segment.

The bottom line is that a restaurant that is not among the best in its segment, will perish or, at best, stumble along as a mediocre competitor forced to discount. This is not a prediction, but a current reality in the industry. Fact is, many restaurant companies in each segment are not preferred choices of consumers and, therefore, must resort to "buying" customers through various forms of discounting, including loyalty programs. The difference between now and the future is that there will be less to discount as a means to fill seats.

## FOUR THINGS TO DO

### #1. QUIT TALKING AND START ACTING

Rather than simply talk about raising the bar on food, service, and people, restaurant leaders should think about *how* to create a memorable experience and then do it. Rather than the rallying cry of "exceed expectations," a restaurant leader should describe what a great customer experience looks like and means to employees in enough detail that they can actually do it. That has been a tactic successfully employed by Ruth's Chris Steak House, Metro Diner, and Stone's Cove KitBar, among others.[1]  In my experience, starting with the operator's vision for the customer experience is a first step toward managers self-selecting to be *SQM* and for employees self-selecting to be *FSFT*. There is nothing that beats clarity as a tool for self-direction and responsibility.

### #2. REDESIGN RESTAURANTS

Another longer term thing to do is to start designing restaurants with the capacity for reinvention built in to accommodate changing consumer preferences. This requires the ability to easily and affordably change a restaurants physical plant and visual brand. While I don't know enough about construction to comment on the ability of restaurant designers to currently meet this need, if this flexibility is not considered from the get-go, it will not be available if and when it is needed. Mama Fu's is an example of this kind of flexibility. It combines the best parts of fast casual and casual dining to create two distinct experiences. Customers have the speed and control during lunch of fast casual and the comfort and engagement of full-service casual dining for dinner.

[1]  In the interest of full disclosure, each of these companies is or has been a customer of Corvirtus.

## #3. CREATE A RETENTION STRATEGY

More to the point of this article, is to give immediate thought to creating a retention strategy for management and hourly employees in order to reduce the number and size of the holes in your staffing bucket, first by changing how you think about restaurant employment. Careers, by definition, provide employees with opportunities to grow. Not surprisingly, lack of opportunity is one of the strongest drivers of not only turnover – but the failure of a potential careerist to consider the restaurant industry as a career. In this instance, the industry has been its own worst enemy. Clearly communicating opportunities for growth, starting as soon as recruitment, can help employees envision a potential career path, starting on their first day. This means going beyond giving lip service to opportunity to showing and educating your workforce about their potential to thrive with your company. For example, The Waffle House, with more than 2,000 locations in 25 states, prominently features a career path on their careers page with videos, average time to promotion, compensation range, stock option benefits, and growth opportunities for each position.[2]

## #4. IMPROVE LEADERSHIP SKILLS

Finally, restaurant leaders at the top need to improve their skills. While I have worked with some extraordinarily talented leaders over the years, the defining competencies of executive leadership I see in the leaders I work with in other industries (i.e., *strategy, culture, structure*, and *execution*) are not commonly in-depth skills in the restaurant industry.

## CONCLUSION

Up to this point, the discussion has had a "Watch out! The world is falling." ring to it, but that's because the best has been saved for last. The industry's point of differentiation from most non-restaurant eating experiences is as old as dining itself. A restaurant has the power to be the consumer's third place. By virtue of the inherent nature of the business, a restaurant (potentially) has five of the six defining characteristics of a "third place" – food and drink, accessibility, regular customers, a welcome and comforting atmosphere, and friends – built into it. Successful restaurants manifest each of these qualities in abundance. Rather than compete in the "eating" industry, restaurants should build on their historic advantage – great food, great service, great people – and consistently execute on them through *Stable Quality Management* and being *Fully Staffed with Fully Trained* employees.

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[2] Waffle House Careers Webpage and Career Path.  https://www.wafflehouse.com/whcareers/career-path

## ABOUT CORVIRTUS

Corvirtus provides a range of innovative, science-based measurements and services that tie a company's culture and core values to talent processes. Corvirtus solutions have enabled hundreds of companies to strengthen and scale their corporate cultures, and to identify, develop and retain those employees with the characteristics and capabilities essential for business success and customer satisfaction. For more information, visit www.corvirtus.com, email info@corvirtus.com or call us at 800-322-5329.