

# SPECIAL REPORT

## Planning for Profit with a POS System



When restaurateurs invest in a point-of-sale system, they do so primarily to improve speed and accuracy of service. Smoother transactions certainly benefit an operation, but far greater potential lies within the POS system. Operators who learn to tap into their POS system's planning and reporting tools may find that the system's strongest impact on profits happens before the restaurant even opens its doors — or after it closes for the night.

**EAST CASUAL**

Sponsored by



## Operations planning: Before the doors open

By Michelle Avery, reporter

**W**hen an operator opens the door in the morning, he's faced with multiple planning challenges. How many employees need to be scheduled? How much prep work needs to be done? The best way to answer those questions is to plan for sales, says Terry Haan, vice president of development for Lynden, Wash.-based SpeedLine Solutions Inc.

SpeedLine POS systems keep track of every hour of the business day, providing a daily sales curve for every day of the past six weeks. Operators then can use the average, dropping highs and lows, to calculate sales going forward.

An accurate sales forecast allows an operator to plan staffing efficiently, preventing overstaffing and having to send employees home, or understaffing and letting customer service suffer. Instead of relying on the way things always have been done, operators can use statistics to schedule labor in a way that gives them an advantage over competitors.

"I've always had five people, so I'm going to schedule five going forward" doesn't cut it when expenses are high, and in such a competitive industry," Haan said.

David Henderson, vice president of field technology for 93-unit Pizza Hut franchisee Capital Pizza Huts and three-unit Freddy's Frozen Custard franchisee RKS Ventures, both based in Wichita, Kan., said the SpeedLine sales forecast helps him teach managers to schedule labor.

For example, the system provides a "job requirements" option, such as the need for one cashier, two cooks and four servers from 11 a.m. to 2 p.m. That allows him to establish minimum staff scenarios for each shift — all relative to projected sales. If a manager attempts to schedule too many workers, it tells her immediately if she's out of line and needs to cut back. No more waiting until week's end to discover the labor budget is busted.

"We want the manager to see those numbers as they're putting people on the schedule," he said. "There's no guesswork at all. It is what it is."

When the system tabulates labor costs, it also factors in payroll taxes and benefits costs. "You get a complete picture of what the cost is going to be," Henderson said. "It looks at everything."

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
Projected Sales	2,026.00	2,264.00	1,932.00	2,087.00	1,522.00	1,952.00
Total Hours	72.00	74.00	75.00	81.00	91.00	86.00
Total OTH Hours	0.00	0.00	0.00	0.00	0.00	0.00
Total OTH Hours	0.00	0.00	0.00	0.00	0.00	0.00
Total Working Hours	0.00	0.00	0.00	0.00	0.00	0.00
# Employees	11	11	11	12	13	12
# Shifts	11	11	11	12	13	12
# Errors	0	0	0	0	0	0
Total Hourly Cost	349.00	476.00	475.00	471.00	563.00	573.00
Total Salary Cost	45.75	58.75	58.75	58.75	65.75	65.75
Labor Subtotal	414.75	532.75	540.75	486.75	628.75	588.75
Labor Taxes	29.83	38.25	37.25	38.25	44.68	41.21
Employee Benefits	59.00	76.00	75.00	75.00	88.00	86.00
Labor Total	603.79	722.81	683.00	639.00	767.43	721.96
Wkly %	17.42	25.97	24.11	27.36	41.18	26.92
					Weekly \$ Target \$	27.14
					Labor Total	4360.00
					Variance	1163.12
						138.88

An intelligent scheduling system factors in targets, forecasts and overhead to keep the labor budget under tight control.

In seasonal markets, accurate forecasting is particularly critical. Chris Jordan, owner of Luigi's Pizza Kitchen, says tracking sales in his restaurants' markets is vital. Branson, Mo., a small town with only 7,000 residents but 8 million visitors each year, is home to two of his stores.

POS systems help those stores operate efficiently, tracking the spikes in sales that come with the influx of vacationers and the drastic drops that follow when they head home at the end of the season. In the spring, the restaurants chart sales to correlate when major attractions reopen for the season, comparing the same week of the previous year to forecast sales and schedule employees.

"Without using the previous sales information, we would be flying blind and making decisions in a reactive state rather than proactive," Jordan said.

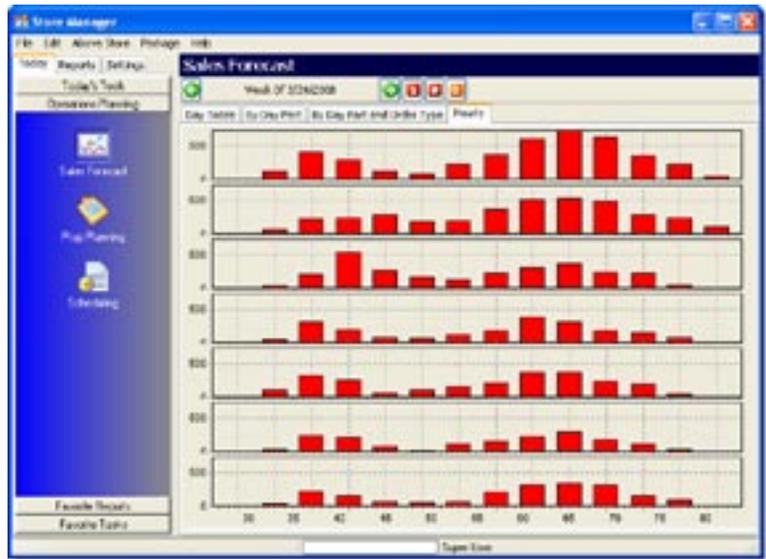
Managers are trained to print the hourly sales report each morning and post it for the staff. That way, staff members know what the sales were for last week's lunch, when the dinner rush hit and what time they should start pre-closing.

"The numbers don't always run consistent," Jordan said, "but it gives them some sense of what to expect."

Keeping track of the sales has an additional benefit on the staff's frame of mind.

"It boosts morale when everyone knows that we are busier today than the same day last week or last year," Jordan said.

In Luigi's Nixa, Mo., store — which is not in a tourist market — Jordan said the previous week's sales are referenced, as well as sales during the same week of the last year to account for holidays and other outside elements, such as athletic events, that can affect sales.



A detailed sales forecast such as this one from SpeedLine allows the system to recommend labor, prep and buffet plans.

## 7 ways to profit from your POS — beyond the point of sale

- 1 Use the system's sales forecast to plan the day ahead
- 2 Use your POS system's labor-planning tools to schedule to meet targets
- 3 Set up prep planning in your POS to minimize waste
- 4 Use your system's inventory software to shave points off your food cost
- 5 Compare item sales and margins to improve profits
- 6 Use employee and item sales reports to track and promote upselling contests
- 7 Track redemptions and cost of sales for every promotion

## Knowledge provides power — and a plan

Duessa Holscher, marketing director for Hillsboro, Ore.-based FireFly Technologies, says that kind of knowledge is power in terms of helping control costs.

“You can predict what’s going to happen in the business and make smart decisions accordingly,” she said.

In a pizza restaurant, for example, dough preparation is a major concern. Haan points out that by looking at a forecast that breaks down by item, an operator can project how many dough balls — and what size — he will need for the day.

He says the SpeedLine forecast and prep plan looks back six weeks and determines the percentage of each item sold, then goes forward with the same percentage. He cited the example of an operator with \$1,000 in sales, 3 percent of which were for chicken wings.

“I’m projecting that tomorrow, there’s going to be \$1,200 in sales,” Haan said. “My 3 percent means I’m going to have to prepare for X number of boxes of wings.”

With SpeedLine, operators can customize their selections. Retrieving meat from a fridge or cooler, for example, doesn’t require much preparation. However, items such as dough balls, which need to be prepped anywhere from four hours to two days in advance, require more accurate planning.

“They can put all those values in our system and, based on how they run their business, it’ll forecast sales over time and recommend the proper prep times and quantities,” Haan said.

## Reporting and analysis: Data-based decisions

Luigi’s Pizza Kitchen uses its POS system to analyze menu items, breaking down which offerings are selling — and which may be languishing on the menu.

“Many times, I would go to remove a menu item because I thought it wasn’t moving like I wanted it to,” Jordan said. “But when I saw the reports, it surprised me how it ranked among other like items.”

Luigi’s analyzes its menu items based on sales and gross profit contribution. If an item is selling, but not generating enough profit, the restaurant raises the price. If an item is profitable, but not

### Don’t be fooled by low percentages

Pricing, sales mix and food cost all contribute to gross profitability, but to make good decisions about your menu and promotions, you need to consider all three. By comparing your POS system’s food cost, sales mix and item sales reports, you’ll be able to see exactly how a price increase, food cost reduction or upselling promotion affects overall profitability.

One of the most common uses of POS systems is tracking ideal food costs vs. actual costs.



selling well, the restaurant promotes it more heavily. And if an item is neither selling nor profitable, the restaurant drops it from the menu.

Using POS reports takes the “gut feeling” out of decision-making, Jordan said, instead turning it into a statistical analysis.

“It makes me feel good knowing that I am making a sound decision based on data and not a feeling,” he said.

Richard Shields, director of operations for two-unit River Smith’s Chicken & Catfish in Lubbock, Texas, said that the restaurants rely on the qualified information they cull from their POS system.

“It helps me set my pars for ordering purposes and track movement when we do promotions or specials,” he said.

The competitive nature of the restaurant business means operators not only need to control their operation, but have consistency across multiple locations. Knowing how other stores are doing can help multistore operations, such as fast-casual chains.

“A lot of fast-casual franchisees really rely on the system data in order to get the knowledge of what the one store has done, but also what multiple locations might be averaging,” Holscher said.

**“YOU CAN’T EFFECTIVELY IMPROVE SOMETHING IF YOU DON’T MEASURE IT.”**

— TERRY HAAN,  
VICE PRESIDENT OF DEVELOPMENT  
FOR SPEEDLINE SOLUTIONS INC.

## Taking stock

Haan says that once operators decide to move beyond managing cash and customer databases, the next most common use of a POS system is to track ideal food costs vs. actual costs.

“You can’t effectively improve something if you don’t measure it,” he said.

Instead of merely suspecting that the restaurant’s cheese cost is too high, an operator can measure it quantifiably. Each item has a recipe that drives its ideal food cost, Haan says, and pricing is based on ideal portioning. But if recipes aren’t followed properly, problems can arise.

“It’s so easy to put too much cheese on a pizza, but with cheese being 30 percent of your food costs in many operations, it can put costs through the roof,” Haan said.

To keep food costs in check, Haan said, a SpeedLine POS system looks at all recipes, sales and ideal food costs at the end of each business day, or more frequently, as some restaurants prefer to count key items twice a day. If the restaurant should have used

Ticket	Menu Selection	Target Price	Calculated Price	Node Price
Ticket : New Ticket				
New Ticket	1 Peppian Carlo Chicken Pizza	14.00	14.00	Super Size \$
New Ticket	1 Large Cherry Coke	1.25	1.25	Fountain \$
New Ticket	1 Large Salad	3.00	3.00	Lg Sal \$
	Total	\$18.25	\$18.25	
	Total	\$18.25	\$18.25	

Target Food Cost: 26.2%    Calculated Food Cost: 26.2%

Compare food cost and usage targets with actual metrics to identify problems with portioning, waste or theft.

50 pounds of cheese in a day but usage is 10 pounds over, the operator will know to look for the cause of that deficit — whether it is an issue of over-portioning, theft, spoilage, waste or malfunctioning equipment.

“Doing proper inventory and identifying variances from ideal food costs lets you focus on where your money is being spent,” Haan said.

With labor at a premium, operators also depend on their POS systems to help cut training costs. Shields has worked with several POS systems, but when he switched to a SpeedLine system at River Smith’s Chicken & Catfish three years ago, the restaurants’ new employee training time plunged from three weeks to just one.

“With the shrinking labor market the way that it is, and often having to compete harder for your staff than for your customers, the ability to train someone effectively in less time is a huge monetary savings,” he said.

## Dollar for dollar

Scott Davis, a franchise owner for Pizza Ranch with eight units in central Iowa, said the greatest strength of a POS system is that it ensures an operator is paid for what is sold. When he started out in 1992 he operated for a couple of years without a POS system, although he now uses a Speedline POS. With no mechanism to track the charges uniformly, customers often complained of price discrepancies.

“I heard it quite a bit, ‘Gee, last time I bought here, the price was different,’ or ‘So much? Last time, they didn’t charge me for extra

**“I HEARD IT QUITE A BIT, ‘GEE, LAST TIME I BOUGHT HERE, THE PRICE WAS DIFFERENT,’ OR ‘SO MUCH? LAST TIME, THEY DIDN’T CHARGE ME FOR EXTRA CHEESE. THE BIGGEST IMPACT ON PRICING IS YOU’LL ACTUALLY GET WHAT YOU’RE SUPPOSED TO CHARGE FOR THE ITEM.”**

— SCOTT DAVIS,  
FRANCHISE OWNER  
FOR PIZZA RANCH

cheese,” Davis said. “The biggest impact on pricing is you’ll actually get what you’re supposed to charge for the item.”

Shields also lauded his POS system’s ability to provide consistency, which results in fewer mistakes.

“If you’re doing a substitution and there’s an upcharge involved, the system will do the upcharge automatically,”

## Did you know?

According to restaurant consultant Jim Laube, carrying too much excess inventory can add up to losses of 2 to 5 percent on an average operator’s profit-and-loss statement. Inventory tracking and controls can help operators reduce the amount of stock they keep on hand, reducing waste and freeing up cash for other things.

he said. “Or if you’re putting a special or a promotion or a package in place — i.e., a combo meal — it automatically charges for that.”

POS reports also can be used to measure and encourage upselling. Luigi’s Pizza Kitchen hosts employee contests that reward workers who sell items that help drive up the check average. Anyone who sells a certain number of desserts or appetizers each week receives a bonus. Jordan said the staff asks to see the sales reports to find out individual standings.

“It doesn’t require that they beat another employee to win, but the competitive nature still exists,” he said. “Even though everyone can win something, people still want to be No. 1.”

River Smith’s Chicken & Catfish tracks sales of appetizers and desserts at both of its locations, then provides employees with an incentive — a percentage of those sales.

“It definitely gets our staff into suggestive selling, because they benefit from it,” Shields said.

And the stores benefit as well. One River Smith’s location began providing sales-based incentives a couple of years ago, and the other followed one month ago. Since then, overall sales of appetizers and desserts have increased by about 100 percent.



A POS can help you track not only which promotions pull the best response, but which are most profitable.

## Poring over promotions

Each door hanger, flier and newspaper ad that lands in the hands of a consumer has a cost associated with it. That’s why it’s important for operators to understand which promotions are most effective at bringing in customers, and which are most profitable.

“You want to maximize the return on your advertising dollar,” Haan said. “That’s why figuring out which coupons are redeemed is important, so you can direct your advertising dollars in the right direction.”

The POS does this by helping operators track specific codes, Holscher said. For example, if a restaurant is promoting the same offer in different publications, it can use a different code for each publication. By discovering which ones have the highest rates of redemption, operators

can determine how their marketing dollars are best used.

The POS system also can gauge the profitability of a promotion, Haan said. By looking at the report, operators can find out how many coupons were redeemed, the total value of sales and the amount discounted.

“Sometimes it’s easy to get a coupon out there that is too good of a deal, and the POS helps you keep an eye on that,” he added. “If you have a coupon that drives \$200 in sales, but it’s giving (customers) a 25-percent discount, it lets you know about that so you won’t make the same mistake again.”

Jordan said the POS system at Luigi’s Pizza Kitchen tracks not only the number of times a coupon is used, but how much a customer spends after using the coupon.

“It tells us how much the offer actually generated so we can analyze the actual return on investment for any promotion,” he said.

“With SpeedLine, we can easily determine the cost of goods sold with each menu item, know how much to discount it and how many we have to sell in order to cover our costs and generate incremental sales.”

Such analysis has changed the way the restaurant conducts its marketing.

“We no longer waste money on small promotions here and there,” he said. “If we can’t track it, we don’t do it — no exceptions.”

Overall, point-of-sale systems are more than pricey cash registers. They provide the tools to predict — and improve — future performance.

Operators who learn and use the planning and analysis capabilities of their POS system to control labor, inventory and cost of sales generate more profit than those who use their systems only to manage orders and cash.

“All the tools are there,” Davis said. “You’ve just got to take advantage of them.”

**“WE CAN EASILY DETERMINE THE COST OF GOODS SOLD WITH EACH MENU ITEM, KNOW HOW MUCH TO DISCOUNT IT AND HOW MANY WE HAVE TO SELL IN ORDER TO COVER OUR COSTS AND GENERATE INCREMENTAL SALES.”**

— CHRIS JORDAN,  
OWNER OF  
LUIGI’S PIZZA KITCHEN