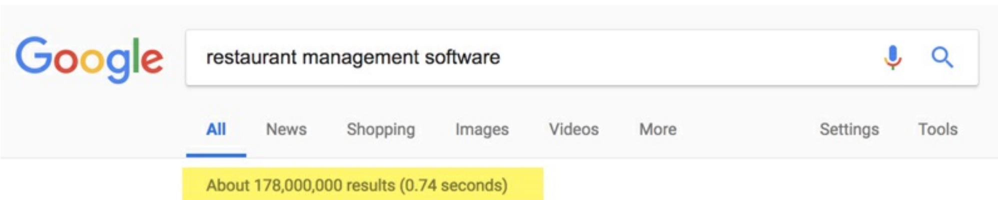
Let's end the confusion on what "restaurant management software" really means

Confused? It's not you.

If you've reached this page, you probably want to know more about restaurant management software and the solutions available in the market. But you may also be asking, "What does restaurant management software really mean?" If you aren't sure, we completely understand.

Any online search for restaurant management software yields tens of thousands of results, and the only thing those results make clear is that the term means something different depending on who you ask. We've noticed that the definition tends to go in one of two different directions.



Some definitions are incredibly wide, and include the software required to manage everything in a restaurant like credit card processing, gift cards, guest Wi-Fi and rewards programs. Others narrow the definition to a point where it's really only another term for a point of sale (POS) system.

We don't think either one of these definitions is correct. It's true that management can include many different aspects of a restaurant business, but going down a rabbit hole of never-ending solutions is not really helpful. It's equally unhelpful to only restrict restaurant management software to one thing.

This essay will draw the line and create some clarity, building a case for what restaurant management software should really mean to you and your business.

It's a BOH thing

The true purpose of a restaurant management solution is to optimize the restaurant's two main centers of cost: **food** and **labor**. This software belongs to the back of house (BOH.)

Now, the POS system, which belongs to the front of house (FOH) does play an important role in restaurant management, but it is the least common factor in the business. It's something everyone must have since it manages cash and credit card transactions and streamlines FOH operations.

Your POS system integrates with your inventory and tells you important information like how much product you sold, your best and worst selling items on the menu, or if your business is growing. And while this is certainly important, your system is really just telling you everything you need to know about your sales. It tells you nothing about your profitability.

As a restaurant operator, you want to know if you're scheduling your shifts correctly, or if you're wasting too much food because of over-prepping. Are the stock levels you're getting from your inventory management solution accurate? To answer these questions, you need more than a POS system.

Ultimately, your POS system contains a goldmine of data that will help you with sales forecasting, among other critical areas of your business. But it won't help you understand what's really happening from a cost perspective. That data should live in the BOH and seamlessly integrate with your FOH system to arm you with the information you need to make the right decisions for your business.

How this essay is organized...

The next six parts will cover three things:

1. What makes food and labor costs soar
2. Where to find the source of the problem
3. How software solutions can help

Parts 1 and 2 explain what food and labor costs are, why it's so important to keep them under control and how they are connected to other aspects of your business.

Part 3 is about the importance of collecting data and using it to gain actionable insights and identify cost-saving opportunities.

Sales forecasting is also crucial for reducing costs. We'll talk about it in part 4.

Part 5 is about why achieving consistency is important for BOH operations and reputation, especially with multi-restaurant businesses.

Finally, in part 6 we'll wrap it up with the most important takeaway: restaurant management – and the software solutions that support it – requires a holistic approach.

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1. Managing food costs

FOOD COSTS ARE EATING YOUR PROFITS.

Each item on your menu has three elements: the sales price, the total cost of the ingredients and the profit margin. The sales price is always known and certain. The cost of the ingredients (and therefore margins) is not.

In theory, you should know how much you spent on food simply by looking at the inventory costs of all the ingredients of sold meals. However, from the moment you receive the ingredients from suppliers to the moment those ingredients are given to the customer in the form of their meal, many things can and will happen that increase your actual food costs.

Actual vs Theoretical Cost

To know how much you really spent on food, look at your inventory and use the following formula:

(Inventory at the beginning of the day + what you purchased on that day) – remaining inventory

You also have to consider food that was taken from the inventory but ended up in the bin before reaching the table (because it got spoiled, wasted accidentally or even stolen).

Between the real cost of food based your inventory and the theoretical cost based on your sales, there will likely be a variance. This tells you how much profit you're losing. Food cost variances are a big deal and no restaurant – no matter how big or small – can afford to overlook them. They're a red flag indicating that you're wasting food or money (or both) and that you need to find out where the problem is.

Even small percentages can mean significant losses, especially when you have high sales volume. As such, your goal is to reduce that variance percentage to the lowest possible number.

For example, suppose a restaurant does $1,000,000 in annual sales. The theoretical food costs are 32.3% of sales and real food costs of 34.2%. This 1.9% variance equals $19,000 in missed profit. Suppose this is the average value per location for a 10-unit chain. In this case, the brand's annual loss is almost $200,000.

So how do you solve your food cost variances? You should start by looking at your inventory and food preparation procedures.

Inventory and vendor management

Optimizing inventory is incredibly important, but it's not an easy task. There are four best practices every restaurant business should follow:

1. *Count or weigh whatever you receive*. What you get from your suppliers may be less than what you paid for. In most cases, this could simply be the result of an honest mistake.
2. *Check if the price is correct*. Even if the quantity is correct, you may still have been charged more than the agreed price.
3. *Digitize your inventory management procedures*. The most effective way to minimize mistakes is to integrate your inventory management solution with each supplier electronically. Also, you can save a lot of time (and therefore more money) in placing orders and invoice reconciliation.
4. *Stop buying too much (or too little).* If you buy more than you need, you immobilize cashflow and increase the risk of spoilage and food waste. If you don't buy enough, you could put your kitchen and waiting staff under unnecessary stress, which in turn may affect the guest experience.

A **vendor and supplier management** solution can help with all four of these practices by:

- automating the ordering process with your vendors, for example by sending automatic orders when you're running out of certain ingredients
- comparing agreed and paid prices and highlight discrepancies
- integrating with the POS system and provide real-time tracking of sold ingredients
- comparing theoretical vs actual inventory
- integrating with the forecast application to give estimates of which ingredients to buy and in what quantity
- sending out-of-stock alerts

We understand that the fourth practice is the hardest one to follow. How do you stop buying too much or too little product? Sales volumes change, which means your inventory needs also change. How do you know how much to buy if you aren't sure how much you're going to sell? In this case, a **forecasting software** solution can provide sales and inventory estimates to help you make smarter food purchasing decisions. (More on this later.)

Food production planning

Accurate sales forecasting can help ensure you prepare the right amount of food and eliminate waste while mitigating the risk of running out and hurting the guest experience. A **food production planning** solution will also help by connecting to the recipe database and give the exact quantities to prep based on the daily forecast. It can also connect to the inventory and send purchase or prep alerts.

This ensures that recipes are always executed in the same manner and – perhaps more importantly – eliminates portioning issues, which is another factor that can drive up food costs. Theoretical food costs and margins are based on specific portion sizes. When these are too large you're simply giving away food for free. When portions are too small you may save on inventory costs, but you'll creating quality issues that could damage sales in the long run.

Customers want consistency from restaurants. When they order a dish they purchased during a previous visit at The Cheesecake Factory, they expect it to taste the same and they expect the same portion size. A food production planning solution will provide the level of consistency in each meal that your customers expect.

Another advantage of using a **food production application** is having a detailed checklist to follow during **food safety** procedures. Even when inventory has the right size and you prep the correct quantify of food for that day, improper food safety management can increase spoilage and waste.

With a digital checklist, food prepping staff can:

- perform detailed quality and safety checks
- know how to store food properly to keep it fresh for longer
- recognize spoiled food and avoid throwing away anything that is still fresh
- correct errors on expiration dates.

Menu engineering

Not all items on your menu are created equally. Some have larger profit margins than others. Each menu has its best sellers, while other items may be rarely ordered.

In an ideal situation, your superstar dishes are also those with the highest margins, but that's not always the case. **Menu engineering** helps by optimizing profits of menus in two ways:

When you know your highest margin items, a menu designer consultant, can tweak every single element of your menu (placement, font, colors, binding, names and descriptions) to influence customers' decisions towards those dishes. You can also use strategic **LTOs** (Limited Time Offerings) to push high-profit items that could sell more.

Menu engineering also helps by allowing you to identify your best sellers and initiate tactics to increase the margins on those items. For example, you might substile specific ingredients with others that cost less.

Of course, it's important to understand the consequences of making any significant menu changes. For example, making ingredient changes can have an unintended impact on inventory costs and your operations in general. A menu engineering solution can help avoid trial and error and simulate how specific ingredient substitutions will impact inventory, food costs, margins, and suppliers' prices.

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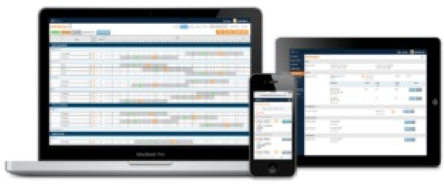
2. Managing labor costs

Labor is the other main cost center of a restaurant. According to industry standards, workforce costs between 20% and 30% of sales. There are many factors that can cause labor costs to soar even higher, which include:

> *High turnover*. Traditionally, the hospitality industry suffers from high turnover rates. Hiring and training new staff takes time and costs money.
>
> *Low efficiency*. When staff are not trained, qualified, or motivated enough, they will be less productive. The likely consequence is that more people will be required to do the same amount of work.
>
> *Incorrect staffing*. Having too many people on shift causes unnecessary increases to your labor costs, while understaffing will most likely mean overtime hours that could have been avoided (not to mention a lower quality of service that can cause negative guest satisfaction).

Hiring the right people, putting them in the best conditions to do their job and rewarding performance can help keep labor costs under control. The General Manager's labor management skills will play an important role in this process, but a **labor cost management solution** can also make their life much easier.

Here are a few things the GM can do with the right labor cost management solution:



Schedule right. It's not just about having the right number of people. It's also about having the people with the right skills for the job. A **labor cost application** can do both by creating shifts based on sales forecasts and employees' skills.

Streamline processes. To improve efficiency, a labor management solution can integrate with the food planning application and create personalized task lists for each employee. When employees are presented with clear processes and they know what they're supposed to do, they tend to follow through with more accuracy and consistency.

Improve communications. A labor management application can make communication between employees and management more direct, clear and transparent. For example, allowing employees to consult the roster, indicate availability or communicate planned and unforeseen impediments can increase flexibility, which is often seen as a reward in itself.

Optimize with earned hours. Organizing shifts based on sales forecasts is the best way to manage labor. However, a staff member's shift might not go the way sales forecasts said it would. A labor management application can pull actual sales data from the POS system and calculate how many hours each employee *should* have worked based on set parameters. That number is called *earned hours*. Comparing these with actual worked hours will provide useful feedback to optimize scheduling in the future.

Reward performance (and know who to train more.) With data on hours worked and sales you can have a better idea of who your better performing employees are. This allows you to reward them while determining who needs further training.

Restaurants need to pay close attention laws regarding mandatory breaks, minimum number of hours between shifts, minimum notice on work schedules, minimum wage and overtime pay. A restaurant management software solution can be instructed to follow different criteria related to your business. This directly affects labor costs while ensuring compliance with labor regulations.

There are no standard rules with labor laws and they can differ from state to state and country to country. They can also depend on the size of the business. Even within the same restaurant, two employees may be entitled to different conditions. The ideal management solution is flexible and able to set specific constraints and criteria for each individual employee.

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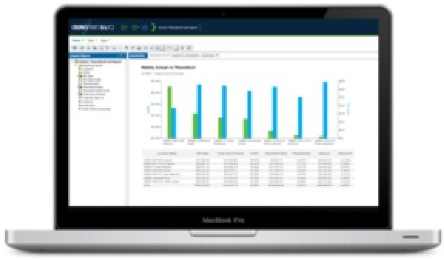
3. Data analysis and reporting with restaurant management software

The restaurant management software solutions we mentioned so far are capable of collecting data on thousands of different metrics from price changes of ingredients to complimentary items given away because of service errors, hours it takes to train employees and so on.



This produces a massive **Data Warehouse**, a technical name for a huge volume of data waiting to be analyzed. When you add **data analysis and reporting**, you can change your perspective from a narrow lens to a big picture view of your information. The better view you have of your data, the more cost-saving opportunities you'll find.

Data analysis and restaurant management software reporting can make sense out of your raw data and give a unified view of specific metrics of the business. From there, management gains precious insights into a number of critical areas, including the effectiveness of certain procedures, the results of promotions and whether or not shifts were scheduled correctly.

4. The importance of forecasting

Forecasting has come up several times in this essay, and for good reason. When your sales estimates are accurate, it becomes easier to reduce food and labor costs. You can buy and prep the right amount of ingredients and schedule the right people for any shift.

Forecasting software is directly linked to your Data Warehouse and reporting solutions, which is why we bring it up after we mentioned them. While forecasting uses data from your front of house POS system, it runs hand in hand with your BOH applications.

There's no room for moderation here: the more data you have at your disposal, the better your forecasts. Data that impacts forecasting includes:

- sales trends (what you sold yesterday, last week, last month, last year, year-over-year, etc.)
- overall growth or decline of the restaurant
- variations between forecast and actual sales in previous periods
- any event that impacts restaurant traffic (holidays, local events, and even weather conditions.)

Effective forecasting is more about flexibility than sheer volume of data. Sales can be influenced by different variables in each restaurant. Before working its algorithmic magic, the ideal forecasting solution will allow you to cherry pick those that make sense for your business.

5. Maintaining consistency in multi-unit chain restaurants

We already know that consistency is a critical component of meal preparation. Most of your restaurant's operations require consistency. Applying the same rules every time will help keep costs low and allow your brand to maintain the quality experience they have come to expect. Restaurant management solutions will help provide the operational consistency your restaurant needs.

Operational consistency is even more important at multi-unit brands, like Jersey Mike's Subs, but it is harder to maintain. Something as simple as the physical distance between restaurants can make it harder to stay consistent across the brand. Multi-unit brands also have to deal with factors such as differences in ingredient pricing, public holidays, dining habits and local languages and currencies (particularly for international chains.)

In this case, restaurant management software will allow you to:

- replicate cost-saving procedures, along with quality and safety standards
- gain flexibility so you can account for local differences
- give employees at any location clear guidance on how to perform certain tasks
- make it easier to investigate the root of an issue, regardless of where it came from

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6. Wrapping up: everything is connected

Restaurant management should primarily focus on finding cost-saving opportunities on labor and food. While they are not your only expenses, they are critical because at least half of your sales revenue will be spent to cover them and there are plenty of opportunities to save in both areas.

Saving small percentages on food and labor costs can have a tremendous financial impact, especially at large chains. If a 20-restaurant chain with sales of $20M per year can reduce food or labor costs by 2% of total revenue, it will increase annual profits by $400K without needing a single extra customer to come through its front door.

Opportunities to save on those costs can be found anywhere: suppliers, inventory counting, ordering and receiving goods, food prepping and safety, shift scheduling, sales forecasting and so on. There are many restaurant management software solutions on the market designed to help with each one of these areas. The problem is that many brands use different solutions to address individual cost-saving opportunities and what they're left with is a series of unconnected dots.

Suppose you discover that you're spending far too much on cheese. You know there's probably an opportunity to optimize cheese costs, but you need to know more than that. Why is this cost soaring? Are you ordering too much, and therefore wasting a hefty portion of your cheese? Is it a portioning problem? You know your POS system – even a highly integrated solution – will give you a detailed view of how much cheese you're selling, but tell you nothing about costs. You need to identify the root of your cheese problem, and to do that you'll likely have to connect different data points.

A holistic approach to restaurant management will provide the answers you need. A restaurant management software solution that supports this approach will connect the dots between inventory, labor, sales and reporting, and tie them together into a single point of view.

The back of house is a complex environment, even at smaller restaurants. Each component affects the other, and finding the roots of overspending requires some investigation. Just when you think you discovered the issue, you may learn that it's only the result of another problem, and then another one, so relying on single metrics won't help you get to the source.

Suppose you learn that your soaring cheese spending is due to a portioning problem. That might be due to untrained staff, or it could be the result of an oversized inventory, which would also create more food waste. A real restaurant management software solution – one that answers most questions you may have about your business and increases the bottom line – is based on a comprehensive approach. It provides the best view of your data so you can identify the root of your high costs and develop the best course of action.

Ultimately, trying to connect the dots on your own is not practicable. A software solution designed for any restaurant concept and size that integrates every part of the back of house will arm you with the insights you need to more effectively manage your restaurant. With one single cost analysis, you will understand where you're breaking down and losing money and you'll have a playbook to help you understand what's really happening in your business today.