Surviving Minumum-Wage Hikes at a Seattle Restaurant

Summary and Importance of Topic

The pressure is on restaurants to get creative as cities, counties, and states increase the minimum wage. Understandably, the owner of Amy's Café, feels threatened by the significant minimum-wage hikes imposed by the city of Seattle. How, then, do restaurant employers face this challenge and survive? Because labor is a significant portion of restaurant expenses, future managers must be familiar with the range of potential actions for keeping labor costs in line with sales to attain desired profitability levels. They must also learn how to evaluate the viability of potential actions to make good decisions and minimize unintended consequences.

Target Audience

This case would be appropriate for an undergraduate or graduate cost control, human resource management, accounting, strategic management, or capstone course.

Teaching Objectives

1. Discuss the various viewpoints on the minimum-wage movement in the United States.
2. Understand the financial impact of minimum-wage increases on restaurant environments.
3. Learn about and evaluate potential measures for strategically addressing minimum-wage increases in restaurant environments.
4. Apply ideas, models, and/or theories for understanding the possible consequences or implications of action alternatives for mitigating minimum-wage increases.
5. Identify the factors involved in restructuring a pay scale to accommodate minimum-wage increases.

Teaching Approach

In this case study, students are asked to identify or invent appropriate actions or interventions for simultaneously rectifying the minimum-wage difficulties, preventing profit erosion, and enhancing the future situation guided by the discussion questions at the end of the case. Ideally, this case study should be a homework assignment followed by an in-class discussion. How this case study is used will depend on the course goals and format and the class size. If it is a large lecture course, you might consider breaking the class into groups, each with a spokesperson, to make the in-class discussion more manageable. If the class is a smaller, discussion-format course, you will be able to explore the perspectives introduced in the case in greater depth, and perhaps integrate other instructional strategies, such as debate.

Step 1: Class lecture that introduces the case study topic.

- Have students take the online minimum wage quiz at http://money.howstuffworks.com/personal-finance/budgeting/minimum-wage-quiz.htm.
- Have students read the Seattle Minimum Wage Ordinance at http://clerk.seattle.gov/~scripts/nph-brs.exe?s3=&s4=124490&s5=&s1=&s2=&S6=&Sect4=AND&l=0&Sect2=THESON&Sect3=PLURON&Sect5=CBORY&Sect6=HITOFF&d=ORDF&p=1&u=%2F~public%2Fcbor1.htm&r=1&f=G.
- Have students read the article (Seattle workers win fight over $15 minimum wage) and view the accompanying video (Where Starbucks CEO would set the minimum wage) at: http://money.cnn.com/2015/03/18/news/economy/seattle-minimum-wage/
- Explain to students how to calculate a labor cost percentage (labor cost divided by sales) and to interpret its meaning. Labor is typically among the highest costs restaurant owners incur. According to a 2010 study by the National Restaurant association, the typical full-service restaurant spends about 33 percent of its sales revenue on labor, including front- and back-of house-positions. The typical restaurant operates on a slim profit margin (2 to 6 percent), so an increase in the payroll expense can have a significant impact on profitability. A very important part of a restaurant accounting system is determining the labor cost percentage. The labor cost percentage alerts managers to possible problems when there is a deviation from past ratios (historically higher), targeted ratios (higher than budgeted cost percentages), and industry averages (higher than competitive set).
- Introduce students to different ideas, models, and theories to help students evaluate possible actions and the associated consequences. In the answers to questions below, some relevant ideas, models, and theories are elucidated.

Step 2: Homework assignments. Students read the case study carefully, noting important case details. Students should read the case study three times to gain a solid understanding of the case fundamentals. The more thoroughly the students know the detailed facts about the situation, the more there is to consider regarding what might be done solving the problem. Then have students read the reference and suggested readings.

Step 3: In a 60-minute class or as a homework assignment, students perform a case analysis, individually or in a group. Students should begin by selecting ideas (e.g., labor-saving equipment: Point-of-Sale system), models (e.g., improving menu performance: Horton menu analysis model) and theories (e.g., increasing employee motivation and productivity: Theory M and Adam's Equity Theory) that will aid in their understanding of the situation (conceptual framework). This will also help them identify actions for effectively dealing with the situation's underlying difficulties.

Step 4. In a 60-minute class or as a homework assignment, have the students recommend actions for restructuring the pay scale and mitigating the minimum wage increases using the following guideline:

1. Determine the criteria (see Table 2 in case study) for evaluating possible actions.
2. Brainstorm possible viable actions.
3. Identify the probable positive and negative consequences of each possible action.
4. Use the criteria to choose the most appropriate and viable actions or interventions. Actions should be carefully justified.

Step 5: In a 60-minute class, the instructor starts and facilitates a class discussion on the case study by asking someone (or a group) for an answer to a particular discussion question and then works backwards to derive the analysis.

Step 6: An optional step is for students to identify how to apply or adapt those actions/solutions identified in step four to other hospitality businesses (e.g., hotel, club, ski resort, theme park, convention centers, etc.). Instructors may choose to use one or more related examples or cases so that students can identify both the similarities and differences in possible actions in minimizing the impact of a minimum wage increase.

Answers to Discussion Questions

1. In your opinion, what are the general pros and cons of raising the minimum wage? The minimum wage debate garnered much national attention after the city of Seattle enacted a $15 per hour minimum wage rate in 2014, making it highest in the nation. Many articles have been published on the advantages and disadvantages of raising the minimum-wage rate. Stakeholder opinions vary on this topic. Some feel that raising the minimum-wage rate is necessary to help restaurant workers make a living wage, the minimum income necessary for them to meet their basic needs (e.g., house, food, and clothing). However, others are concerned that minimum-wage increases will be costly to restaurant businesses. The following are some general points you can use for discussing the advantages and disadvantages of minimum-wage hikes to help students frame the issue from a macro perspective before delving into the subsequent discussion questions and the specifics of this case study (Halvorsen, 2014; Williams, 2015).

Possible advantages of the minimum-wage rate hike are:

- **Improves living standards:** Low-wage workers would be better able to pay for their basic living expenses and to support themselves. This may lead to less reliance on social programs and the reallocation of those funds to support other needs.
- **Stimulates economy:** Low-wage workers would have more money to spend. When low-income households earn more money, they are more likely to spend it. This may stimulate the economy and the hiring of more people to keep up with increased sales from minimum-wage workers who are buying more.
- **Decreases turnover**: Higher wages may boost worker productivity and lower turnover rates, which results in fewer expenses to hire and train new employees. Unifi Network (www.unifi.com), a division of PricewaterhouseCoopers (www.pwcglobal.com), and Roper Starch Worldwide Inc., conducted a joint study in 2000 examining the impact of employee turnover on customer satisfaction within six different industries. A total of 3,005 consumer interviews were conducted online. The survey results revealed that consumers considered high employee turnover as a major cause of poor-quality service. When Maslow's hierarchy of needs is applied to work situations, it implies that managers have the responsibility to ensure that deficiency needs are met (Maslow, 1954). Maslow scales human needs; the most prepotent (sense of urgency) are the lowest on the scale. The physiological needs (fair compensation) are at the bottom of the hierarchy followed by safety, social, esteem, and self-actualization needs. When management fails to address wages that are perceived as too low or noncompetitive, employee performance and job satisfaction theoretically suffers and leads to lower retention rates (Ramlall, 2004). Other theories that help explain the relationship of compensation to employee retention rates are (Pinder, 1987; Adams, 1969; Ramlall, 2004):

  - Equity Theory: This theory asserts that employees seek to maintain equity between the inputs that they bring to a job and the outcomes that they receive from it against the perceived inputs and outcomes of others. Equity is perceptual and relative. An employee feels justly or unjustly treated only in relation to how he or she perceives others are being treated in the same situation.

  - Expectancy Theory: This theory has three key elements: expectancy, instrumentality, and valence. An employee is motivated to the degree that he or she believes that effort will lead to acceptable performance (expectancy), performance will be rewarded (instrumentality or performance-to-reward expectancy), and the value of the rewards is highly positive (reward valences). In other words, the employee will choose the behavior that has the highest anticipated payoff or directly leads to things he or she wants.

Possible disadvantages of the minimum-wage rate hike are:

- **Higher prices.** Employers may need to raise prices to cover the inflated labor cost. In addition to low-wage employees, employees who have worked their way up through pay raises will also likely have their pay increased to match their title and tenure (Equity Theory). Higher prices may dampen sales and perhaps force even larger price increases to cover costs. How much prices can theoretically increase depends on the price elasticity of demand, a measure used in economics to show the responsiveness, or elasticity, of the quantity demanded of a good or service to a change in its price. Demand is called elastic if, say, a 10 percent rise in price reduces quantity demanded by more than 10 percent. Demand is called inelastic if such a rise in price reduces quantity demanded by less than 10 percent. Discriminatory pricing, charging lower prices to price-elastic or price-sensitive customers and full prices to price-inelastic customers, has become a standard operating procedure for many hospitality firms (Raab et al., 2009). For example, a business might lose market share (price-elastic market segment) to neighboring competitors providing similar products and experiences at lower prices. While it may be possible for this business to either beat or match lower-priced competitors without crippling its profits, significant operational changes may be required. This business may also need to rethink how it communicates with its customers (James, 2007).
- **Fewer full-time job opportunities.** Rather than raising prices to offset higher wages, businesses might elect to cut employees, their hours, or both. Worker benefits could also be reduced. According to a 2013 Congressional Budget Office report, 500,000 jobs would be lost if the federal minimum wage were raised to just $10.10 per hour (https://www.cbo.gov/publication/44995). Furthermore, a 2006 Federal Reserve Bank of Chicago study predicts that a 10 percent increase in the minimum wage will lower low-skill employment by 2 to 4 percent and total restaurant employment by 1 to 3 percent (Aarronson and French, 2006).
- **Less demand for unskilled or semi-skilled workers**. Overly qualified individuals might be vying for minimum-wage positions, hindering opportunities for low-wage workers to improve their socioeconomic outlook. Businesses may also not be able to afford hiring younger, inexperienced workers, reducing opportunities for them to gain resume-building experiences and knowledge.

2. How should Amy's Café restructure the pay scale to accommodate the minimum-wage rate hikes? A key question for Amy is whether to follow the city of Seattle's minimum-wage ordinance schedule or immediately jump to $15 per hour required by 2019. This may depend on what competitors do? In 2016, the owner of Tom Douglas restaurants, Seattle's largest upscale restaurant group, stated the following in a letter to staff: "We are committed to everyone on our team making $15 or more" (http://tomdouglas.com/pdf/Website_TomsLetter-ServiceChargeModel.pdf). If the majority of Seattle restaurants go straight to $15.00 per hour, Amy's Café may be forced to do the same to attract and retain quality employees. The next decision for Amy is to determine how much of an increase to give to employees. Let's say that Amy decides to follow the schedule and must comply with the April 2015 minimum-wage rate of $11.00. For example, a line cook making $9.47 per hour would then receive a $1.53 per hour increase. But what about other employees who are making more than $9.47 per hour? How will their wage rates move forward? If these are not adjusted equitably, employees could become demotivated if they feel as though their inputs (e.g., hard work, skill level, tenure, etc.) are greater than their outputs (e.g., compensation) (Ramlall, 2004). Erickson (2014) maintains that the challenge for the restaurant operator is to minimize those increases without losing experienced and loyal staff. He recommends a declining scale for wage-rate increases with a maximum breakpoint (wage rate with no increase). For example, assume a new minimum-wage rate of $11.00 per hour and a maximum-wage rate breakpoint of $15.00 per hour. An employee with an old rate of $9.47 would get a $1.53 per hour increase, the maximum increase, and an employee with a wage rate of $15.00 would remain unchanged. Other employees with old wages rates between these two thresholds would get incrementally lower wage-rate increases (see Table 3).
3. What actions (e.g., profit formula, resources, and processes) would you recommend to mitigate the minimum-wage increase to ensure the long-term viability of Amy's Café? Raising the minimum-wage rate from $9.47 to $15.00 represents a 58.38 percent increase. The present labor cost percentage at Amy's Café could easily increase from 36 percent to 44 percent or more if no changes are made. Anthony Anton, president and CEO of the Washington Restaurant Association, estimates that a typical Seattle restaurant has a 36 percent labor cost percentage, 30 percent food cost percentage, and four percent profit margin (Jones, 2015). For Amy's Café to remain profitable, the business model will need changing in terms of the profit formula, resources utilized, and processes deployed. The

Table 3

Declining Pay Scale Structure

Old rate	Wage Rate Increase	New Rate
$9.47	$1.53	$11.00
$9.97	$1.33	$11.30
$10.47	$1.03	$11.50
$10.97	$.93	$11.90
$11.47	$.70	$12.17
$11.97	.$70	$12.67
$12.47	$.60	$13.07
$12.97	$.50	$13.47
$13.47	$.40	$13.87
$13.97	$.30	$14.27
$14.47	$.25	$14.72
$15.00	0	$15.00

case facts illuminate and inform some potential actions (e.g., eliminate tips and raise menu prices). The readings illuminate other potential actions (e.g., labor-saving equipment).

Let's assume that the minimum-wage rate at Amy's Café is now $15.00 per hour and the labor cost is now 44 percent of sales revenue. To again achieve the targeted labor cost percentage of 36% at Amy's Cafe, the owner might raise prices (e.g., 21 percent increase), cut costs (e.g., 8% decrease), or both. These general goals need to be translated into clear and specific actions. Some potential actions are straightforward, while others are a bit more complex and will require students to think carefully through theirs the pros and cons aided by the evaluation criteria listed in Table 2. Below are some key actions that could help mitigate the impact of the minimum-wage increase on Amy's Café.

Potential Actions:

- **No-tipping and raise menu prices or add service charge.** Many Seattle restaurants have opted to either eliminate tipping and raise prices or eliminate tipping and not raise menu prices but add a service charge. *Will a no-tipping policy be accepted by both customers and employees at Amy's Cafe?* It will probably depend on who initially adopts it (reputable and highly visible Seattle restaurants), how widespread it becomes in Seattle, the magnitude of menu price increases or service charges, and how price increases and service charges benefit employees (e.g., commissions, wages, benefits, etc.).

  Will customers pay more for menu items? A 2015 study by AlixPartners found that while 51 percent of customers supported higher pay for restaurant employees, a third of those supporters were against paying more for menu items to achieve higher wages. The price-sensitivity of customers at Amy's Café will determine to what degree the owner will be able to raise menu prices. This action has risk of reducing sales, especially if the prices are raised significantly (e.g., 21%). In terms of implementation timing, the owner might gradually increase menu prices to offset rising labor costs to make this action more palatable to customers over time. Price increases are much less likely to be noticed when they are done more often in smaller increments. Amy should be selective in raising menu-item prices, however. Performing a menu engineering analysis, a process for categorizing menu items based on their contribution margin (menu price – food cost) and popularity, is helpful in pricing menu items. For example, Amy could consider raising the price on a popular item with a low contribution margin (plow horse – Kasavana and Smith menu analysis model) to test for price elasticity. The objective is pricing menu items in a manner that will result in customers ordering profitable items and eliminating those items that are eroding profitability (Taylor and brown, 2007).

  Will customers pay a service charge? The 2015 AlixPartners study found that overall 65 percent of customers want to control how much they tip and do not want a set service charge (Ruggless, 2015).

  What are the public relations implications for restaurants who forgo following the minimum-wage rate schedule and immediately pay employees $15 per hour? When well-known Seattle-based restaurant employers, like Tom Douglass' restaurants, immediately boost their minimum wage-rates to $15 per hour very publicly, it creates pressure on other restaurant employers to follow suit. Combine that with growing social pressure, it would not be surprising to see Amy's Café and other restaurants quickly bow to the competitive wage dynamics. Molly Harnischfeger, an AlixPartners director and member of the consulting firm's restaurant and foodservice practice, was surprised by the number of people who supported the movement for higher restaurant wages in the 2015 AlixPartners restaurant survey. The most support of the movement for higher worker wages was among the younger demographics, whereas the 65-plus age group was the most willing to pay more (Ruggless, 2015).

  How will revenue from increased menu prices or service *charges be distributed to employees?* In Seattle, this is being handled in various ways. A restaurant, for example, could raise prices to offset wage increases and do nothing more. On the other hand, it could raise menu prices and allocate a portion of the revenue (e.g., 8 percent) for tipping servers or all employees based on hours worked. Service charges are not tips but part of the employer's gross receipts (http://www.dol.gov/whd/regs/compliance/whdfs15.htm). If a service charge is added, all of it could be used to offset wage increases or portioned out as additional compensation to designated employees (e.g., servers). Both state law and Seattle's minimum-wage ordinance require restaurants to disclose on menus or receipts what percentage of a service charge goes to employees, even though it is not technically required for them to receive anything. According to one Seattle attorney, this law is frequently violated throughout the state of Washington. Amy's Café customers may find that a service charge is an easier and more transparent method of compensating servers but how it should be implemented and distributed to them requires careful thought. How the city of Seattle will monitor the process needs clarification (Garbes, 2015).

How will servers respond to no longer receiving tips? Gabriel Frem, owner of Brand 158 in Glendale, California, maintains that tips disrupt the working environment and leave workers unsure of their weekly take-home pay. Eliminating tips and paying employees more will stabilize their lives (Peterson, 2014). Servers are the face of the restaurant. They play a critical role in making customers feel well taken care of. A number of studies have that found tipping barely improves service, however. For example, the average correlation between tip percentages and service ratings was only .11 (very weak) in a quantitative review of 14 studies involving 2,645 bills at 21 different restaurants (Lynn, 2001). On the other hand, a few studies have found that server turnover rates increase as their average tip percentages decline (negative correlation) (Lynn, 2003). Amy's Café servers are presently making $16.00 to $18.00 per hour. In a non-tipped environment, they would earn less but gain more predictability in their incomes. Bonuses or commissions may be necessary to retain servers, especially those with strong merchandizing skills. Theory M maintains that hourly employees work most productively when their wages are closely tied to their level of output (e.g., sales volume, average guest check, etc.) (Weaver, 1998). If compensation remains the same for all servers regardless of their output, once highly productive servers may respond to this inequity by reducing their work effort or quitting according to the equity theory.

Can a tip culture change? This question is gaining more and more attention because of the raise-the-minimum-wage movement around the country. Eliminating tipping and increasing menu prices or adding a service charge may be easier to implement in high-end restaurants because their customers are typically less price sensitive. Consequently, menu-price increases and service charges will likely need to be tempered in casual dining restaurants, like Amy's Café. According to Paul Mangiamele, CEO of 75-unit Bennigan's Franchising Co., based in Dallas: "Ultimately, the consumer will look at the value of the experience. If they don't feel they're getting value for their money with the increased pricing, they're not coming back" (Maze, 2015).

- **Purchase labor-saving equipment and technology.** The owner of Amy's Café must now face the reality that it may be difficult to compete without utilizing newer equipment and technology to boost labor productivity. For example, it takes less labor time to enter orders using a wireless handheld rather than walking back and forth taking and entering orders into a POS terminal. It takes less time to cook products using a conveyor oven rather than tending to it on a grill. There is also the opportunity to shift some of the work from employees to customers through use of self-service devices (e.g., table kiosks).

How will customers and employee respond to the introduction of new technologies for streamlining service? What front-of-the-house technologies will be a good strategic fit for Amy's Café? Much depends on how it is perceived by both customers and employees. Allow employees and customers to view and/or interact with technologies under consideration and then ask for their perceptions about the appropriateness for Amy's Café.

While technology may streamline processes, some may feel that it depersonalizes service. Wireless handheld terminals, for example, were first used in restaurants in 1977. Handheld terminals were not popular during the 70s and 80s. The public did not accept them. At some restaurants, servers were instructed to step away because of customer complaints (Collins, 1991). Today, the reaction would probably be much different at most restaurants. But what about using tabletop tablet technology that allows customers to place and pay orders? Server roles will change and tipping may no longer be necessary because most of the work will be done by customers, expediting the ordering process and increasing table turnover. Reese (2014) maintains that self-order kiosks are not a replacement for cheap labor. He argues that Panera Bread's self-order kiosk installation, costing $42 million, will not result in a significant savings for the restaurant chain.

In most industries, robots are being recruited for applications that have generally been performed by humans because of their increased functionality and the declining cost of making and supporting them. A 2015 study by the Boston Consulting Group predicts that over the next decade robots will become more prominent in the US labor market as they improve productivity and cut costs. The Asian hospitality industry is already taking advantage of this trend. Thousands of noodle-making robots have been purchased by restaurants in China. A number of restaurants in Singapore use drones, pilotless flying robots, to ferry food from the kitchen to serving stations. Robot servers, costing under $10,000, can be found waiting tables at restaurants in China, Japan, South Korea, and Thailand. The restaurant industry may eventually find the deployment of robots a competitive necessity. Thoughtfully designed robot systems, however, will be required for service environments where customers may not even know what robots are and what they are trying to do, says Chris Jones, Director of Strategic Development at iRobot (Collins, 2015).

Can Amy's Café afford to purchase new equipment and technology? While POS systems are becoming more affordable, they still represent a substantial financial investment. The average cost of a POS system, including installation, is about $15,000 and must be replaced or upgraded every three to five years. Some restaurant operators spend $50,000 or more for their POS systems. POS systems, drink machines, food processors, higher-capacity cooking equipment, and equipment placement (kitchen design) all can have a significant impact on labor productivity. Each purchase must be cost justified, however. A dollar value must be assigned to the projected benefits and compared to the costs incurred to determine its pragmatic feasibility. This approach will result in smarter choices that will provide a faster return on investment.

- **Better Scheduling.** The labor cost percentage is not an accurate measure of employee productivity and scheduling efficiency (Pavesic, 2004). However, it does indicate if there is a cost structure problem or if the labor cost percentage exceeds the targeted labor cost percentage. Furthermore, judging labor performance based on the labor cost percentage reported in the monthly income statement is too late for corrective action. Labor hours need to be monitored on a day-to-day basis.

There is a tendency to schedule more workers than are needed because of a fear of being shorthanded or not understanding how to properly align labor with customer demand. Amy's Café has been using a manual scheduling system and could probably benefit by using an automated scheduling and labor control system interfaced with a POS system (e.g., HotSchedules). The purpose of a labor control system is to eliminate unused employee capacity. The first step is the formulation of efficient staffing guides (e.g., covers per labor hour by position) or the number of labor hours that must be worked by persons in variable staff positions as the volume of expected business changes. To develop a staffing guide, two basic steps must be followed: identification of tasks associated with a particular position and determination of time requirements to complete these tasks (Scientific Management and Time and Motion). One this information has been gathered, it should be determined if any of the tasks should be combined, eliminated, simplified, or rearranged. During this process, barriers to and measures for improving labor productivity can be identified. Reducing service steps, for example, can speed up service and increase the table turnover rate, increasing sales capacity (Sill, 1991). However, to keep employees busy is not an easy task in an industry where the flow of business has definite peaks and valleys for most positions. The challenge can be eased by writing job descriptions that allow workers to be cross-utilized and easily shifted from one job to the next when needed. Another measure is maintaining a good balance of part-time versus full-time employees, giving managers more flexibility in matching workloads with customer demand. Scheduling software monitors worker hours and ensures that part-time employees do not exceed 30 hours per week, the threshold for becoming benefit eligible.

How will employees react to new staffing guides and automated scheduling? The development of staffing guides frequently results in revision of job content and may require employees to be retrained. To gain employee co-operation, management must communicate effectively the benefits of the program. Successful programs solicit employee participation in the development of new labor standards to garner their support and interest in improving operational performance. Automated scheduling may help with retention. Scheduling software can automatically determine the number of hours required and how the hours should be distributed, saving supervisory time. Short-term variables such as vacation, sick leave, flex-time, and personal days off are all considered when using scheduling software. The opportunity for employee input and lack of bias in schedules addresses two important factors – worker empathy and management efficiency.

A key to controlling labor is the development of a good forecasting system. Without it, controlling labor costs and maintaining service requirements is impossible. A labor control system is a pre-control system because it predicts the number employees needed. Scheduling requirements are predicated on the forecasted work volumes and labor standards stipulated in the staffing guides. The heart of a good control system is the measurement of actual performance compared to performance standards. This information should be circulated in a daily or weekly labor productivity report highlighting areas needing attention. An effective labor control system will enable managers to sense changes in daily workloads (forecasting) and take the required corrective action (managing)

- **Re-engineer menu.** Recipes are the backbone of an operation. Every operating expense, every salary and wage, and every penny of profit must come from the difference between the selling price and the cost of recipes. It may possible for Amy's Café to reduce the number of labor hours by reducing the complexity of the menu (number and diversity of items and sub recipes). Using value-added products (e.g., pre-marinated and cooked chicken and Sous-vide) and trimming menu items and labor-intensive recipes are possible options. Streamlining a menu typically increases kitchen capacity as economies of scales are realized and changeover costs of multi-batch products are minimized (Sill, 1991). However, the menu changes will need to be consistent with the concept and theme of the restaurant and the needs and expectations of customers (Ozdemir and Caliskan, 2014).

How feasible is it to determine the labor-intensity of menu items? Every preparation task must be timed and costed out based on the hourly labor cost of the employee performing the task. This requires a time study where a timekeeping device is used to record the time taken to accomplish every task required to produce and deliver a menu item. Amy's Café would probably need the help of a consultant to perform a menu analysis that incorporates labor cost into the profit formula (menu price – food cost – labor cost = contribution margin) for each menu item. According to Taylor and Brown (2007), it is extremely difficult to precisely calculate and assign the labor cost required for producing a particular item. For example, how can you differentiate the labor requirements for menu items when they are simultaneously prepared by the same employee? Furthermore, the Horton menu analysis model (contribution margin inclusive of labor) when compared to the Kasavana and Smith model (contribution margin exclusive of labor) rendered different results for only 11.5 percent of the menu items evaluated for an independent restaurant (Taylor and Brown, 2007).

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