

The Battle to be a Profitable Restaurant: How to Deal with Employee Theft

Most restaurant operators are engaged in a battle from new tax laws that adversely impact sales, to protect margins from increasing labor costs and food prices, and accounting for the added cost of delivery (driven by increased demand). Most of these examples are areas that are beyond an operator's control. However, there are opportunities in a restaurant operation where we can manage more closely and win the battle against margins.

One area to manage, that may seem insignificant but a silent killer in business, is employee theft. Did you know the amount stolen by employees in the restaurant business is about \$6 billion annually? The percent of annual revenues lost to theft or fraud is 7%. Believe it or not, 75% of employees have stolen at least once from an employer and 35% have stolen at least twice.*

With these kinds of statistics, it is not only extremely important to be vigilant with all employees, but it is critical to identify the current problems and initiate programs to lessen and deter the "would be" violators who could be walking out the door with your profits. Two of the most common areas of employee theft in the restaurant industry are **larceny** (the loss of cash and merchandise) and **shrinkage** (the loss of inventory).

Common forms of larceny would include:

- Cash theft - at the register or Point of Sale, during the till count, out of the safe or on the way to the bank
- Merchandise theft - food products like steaks, bottles of wine or alcohol/liquor, for personal use or to resell
- Company property theft - items like flatware or silverware, wine decanters, coffee presses, etc.

One potential solution to help combat this type of loss would be having a modern up-to-date Point of Sale system and utilizing the cash control features such as a blind drop at checkout. A blind drop means the cashier doesn't know what amount should be in the till until he/she is checked out by the manager. Another solution might be to consider going "cashless" as it removes the possibility of cash theft. Of course, having secure locks and appropriately placed closed circuit camera can be very effective in determining the problem as well as being a deterrent.

Employee theft as "shrinkage" can take the form of:

- Directed portioning - a "heavy" pour or "extra" fries, etc.

- Under charging - charging for a “small” and serving a “large,” non-authorized refills. Free food to family, friends, and/or regulars for a bigger tip.
- Discount sharing - giving employee discounts, comps, and/or voids dishonestly or outside of company guidelines (if they exist).

There are numerous checks, balances, and systems that a savvy operation can employ to combat this type of theft. Establishing training and certification guidelines for employees who handle products (like bartenders, line cooks, etc.) as well as random spot checking and testing can help to reduce your shrinkage problem caused by directed portioning.

When it comes to undercharging, a regular audit of voids and comps can be a reliable tool to identify employees or managers who may be stealing. An operator may also want to establish policies that reinforce everyone’s use of swipe cards or biometrics when using the POS. To combat discount sharing, a written policy on how discounts are to be used and allowing only managers to apply them are both wise and simple ways to disrupt discount sharing problems in your restaurant.

It is staggering that up to one-third of business bankruptcies occur because of employee theft. The odds are overwhelming that employee theft is happening in your business. You need a plan and have policies in place to help combat the theft, shrinkage, and waste.

We offer a Restaurant Site Assessment (RSA) that is an expert third-party review of your restaurant which includes back office financial controls, payroll & vendor validations, security, kitchen and bar practices audit, and a full report including actions and recommendations. KROST has more than 40 years of experience in the foodservice industry and can be your reliable third-party consultant to help you examine your business and put the right tools in place to protect your profit margins.

Please contact Robert A. Benson today to schedule your Restaurant Site Assessment at Robert.benson@krostcpas.com or 818. 616.7377.

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