How to Calculate Your Restaurant's ROI from a POS Deployment

EBOOK

In today's highly competitive foodservice environment, restaurant owners want to make sure they are getting the best return on investment (ROI) from every dollar they spend. In calculating the ROI from deployment of an advanced point of sale (POS) system, many benefits are easy to quantify: for example, speedier checkouts means faster table turnover at busy times. Others are less obvious, though no less valuable, and spread far beyond simple operational efficiencies to areas including tighter inventory control, better labor management, reduced shrinkage and theft, and even the ability to target different marketing messages to distinct customer groups.

Because today's POS solutions are capable of far more than simply ringing up and recording transactions, determining the ROI on these investments involves looking at multiple elements of a restaurant's operation. This eBook will provide a guide to key areas of "return," some prominent and some less so, that restaurant owners should consider as they contemplate such a major technology investment. If your ROI calculations indicate that the numbers add up for you, this eBook also provides guidelines for choosing a well-qualified POS vendor that's right for your company's needs.

POS system costs can vary widely, but a full-featured POS system, including hardware, software, labor to set up and customize to your business, along with delivery, installation, training and initial support, will begin at about $5,000 for the initial terminal, then range from $3,000 to $6,000 per terminal beyond the first. Factors including the number and type of hardware peripherals (e.g. kitchen terminals, printers, cash drawers, card readers, customer display screens, etc.) as well as the complexity of the POS software account for the wide range in prices.

DETERMINING THE TRUE VALUE OF A POS SYSTEM

Today's advanced restaurant POS systems generate value in four broad areas:

- Improved accuracy and efficiency
- Proper tracking of inventory
- Better management of labor
- Reductions in theft and shrinkage

1. Improved Accuracy and Efficiency

POS systems offer improved efficiency over manual or electronic cash registers beginning with their most basic function – ringing up transactions. Many feature touchscreens with preset price keys, so staff will stop charging the wrong prices (or stop guessing what the right prices are). Price changes can be easily managed and immediately updated throughout the restaurant or chain, with more precision for time-defined pricing periods (e.g. happy hours or lunch specials). In addition, systems providing servers with upselling prompts can increase order sizes.

Check tracking features ensure each server is accountable for his/her checks, and also make it easier to handle conditions including split checks, discounts, tax-exemption coupons, and promotions. Built-in processes ensure that the restaurant charges for every item that's served, and that nothing comes out of the kitchen without first being posted to a guest check.

Accepting credit cards is streamlined with integrated payment processing, which also eliminates the need for separate credit

authorization terminal hardware and phone line connections. Time spent reconciling between "register" and credit card totals is also saved, and consolidation of all daily transactions into a single batch transmission to your financial institution can yield cost savings through reduced credit card fees.

Many POS systems now include, or easily integrate with, kitchen management systems, providing accurate communications between servers and kitchen staff. Printers or terminals in the kitchen that display orders help speed up service and minimize mistakes generated by handwritten orders. Fewer wrong orders means happier guests and the bottom-line benefit of fewer "comped" meals or free desserts.

Integrated POS systems increase their ROI potential with the ability to track guest activity and manage centralized customer databases, including e-mail addresses used for marketing purposes. Restaurants can more easily manage loyalty programs, which offer the dual benefit of rewarding frequent customers and providing detailed information about who guests are, how often they come in, how much they spend, and what they buy.

Armed with this kind of easily accessible data, restaurants can target their marketing rather than simply blanketing everyone on their mailing list with the same promotion. For example, guests who have not been to the restaurant in several months could be offered a high-value coupon (e.g. 25% off their entire meal), while frequent customers who are likely to come into the restaurant anyway would receive a lower-value offer along with news about a new menu item.

ROI Potential

Our hypothetical restaurant's sales average $50,000 per month, or $600,000 annually. Following are some potential savings from the improved accuracy and efficiency a POS system provides:

- 1.50% per year lost to slow table turns: $600,000 x 0.015 = $9,000

- 1.25% per year lost to order errors: $600,000 x 0.0125 = $7,500

- 3% of revenue gained from increased average guest check (i.e. one additional drink/table), less food & beverage costs at 50%: $300,000 x 0.03 = $9,000

Only counting efficiency improvements and upselling opportunities, the restaurant gains an additional $25,500 in annual revenue, a 4.25% incremental increase.

2. Proper Tracking of Inventory

Along with labor, food, beverages and supplies comprise a restaurant's largest expense, so even small savings achieved via more accurate inventory control can have a big impact on profitability.

Today's POS systems are effective at connecting with restaurant inventory management solutions. Reporting features built into POS systems make it easier for restaurants to keep the right stock on hand. Sales data broken down by individual menu item allows managers to quickly validate actual stock against expected inventory levels, and makes it much simpler to pinpoint potential areas of waste and/or theft.

The value of these reporting features also increases over time, by compiling historical data that helps sharpen forecasts. Clearer inventory information helps make purchasing requirements more scientific, based on actual data rather than past experience or estimates.

Automated ordering functionalities can improve accuracy and save time compared to manual or "siloed" inventory management systems. Time savings should be added to ROI calculations when POS systems offer vendor re-order lists based on actual usage, automated inventory reconciliation, the ability to import existing inventory lists, and multiple-location inventory control capabilities.

ROI Potential

Reductions in food and beverage requisition wastes can total as much as 1% of total revenue. For our hypothetical restaurant with $600,000 in annual revenue, this translates to a cost savings of $6,000 per year.

3. Better Management of Labor

As with inventory and kitchen management, today's POS systems encompass many areas of labor management, from the basics of time-and-attendance functionality to scheduling suggestions based on historical data and projected sales. Restaurants can eliminate separate systems for clocking employees in and out while also gaining a more complete picture of one of their biggest expense areas.

Automating labor via a POS system also makes it easier to tie into an in-house accounting system or to export data to a third-party payroll management service.

Integration of labor management functions into a centralized POS system also provides visibility into what restaurants are actually getting for their payroll dollar. A prime example is the "extra 15 minutes" that is given away to employees on a daily basis.

ROI Potential

Say a restaurant has five employees paid $10 per hour. If each employee gets to work at 8:05 a.m. and leaves at 4:50 p.m., but writes 8:00 a.m. to 5:00 p.m. on a time card, the restaurant is giving away 15 minutes of pay to each employee. This may not seem like much, but it can quickly add up:

- 15 minutes x 5 employees = 75 minutes per day
- 75 minutes per day x 5 days per week = 375 minutes (6.25 hours) per week
- 6.25 hours per week x $10 per hour = $62.50 per week x 52 weeks per year = $3,250 per year

That $3,250 annual "leakage" represents spending on time that you are not getting from employees. Eliminating this scenario with automated, integrated time clock functionality can reduce a restaurant's labor costs by 8.8% per year.

4. Reductions in Theft and Shrinkage

The tighter controls and improved visibility offered by today's POS systems can go a long way toward mitigating shrink losses from unintentional waste or outright theft. When employees know that everything from guest checks and gift cards to food and beverage supplies are controlled and accounted for by a centralized system, they will be effectively discouraged from attempts to steal or "game" the system. Detailed, easy-to-access reporting also helps restaurants discover vendor errors and/or potential fraud, another major source of shrink.

Some POS systems also include integrated surveillance systems, providing a recorded view of each transaction. Advanced systems offer search functionality that allows managers to pinpoint specific transactions, or target times when suspected employees are on duty.

Some losses come from discounts offered by managers, servers, or bartenders. While some of these may be legitimate, others may be "sweethearting" – free or discounted services provided to friends. Without a POS system tracking all transactions, however, there's no way for a restaurant to know exactly how much money is going out the door, or for what purpose.

ROI Potential

If our hypothetical restaurant with $600,000 per year in annual revenue is able to reduce losses from both outright theft and untracked comps provided by employees, here are the results:

- 1.25% per year lost to theft: $600,000 x 0.0125 = $7,500
- $900 per month in untracked comps: $900 x 12 = $10,800

The $18,300 in resulting savings represents a 3.05% revenue increase for the restaurant.

CHOOSING A POS VENDOR

If and when your calculations reveal that investing in a POS system will provide your restaurant with a solid return, the next step is to choose a vendor that's right for your business model and specific needs. The following are key areas to explore in narrowing down your vendor list:

- **Specialty and Experience:** Select a vendor that is not only a restaurant specialist but one with experience supplying to your particular vertical. POS requirements vary widely from fine dining establishments to quick service and casual restaurants. Vendors that are experienced with your type of business can make targeted recommendations and act as consultants from the start.

- **Length in Business:** Vendors that have committed to POS sales and service for a considerable length of time are more likely to stick with you through the lifespan of your system, which can reach five to seven years.

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- **Installation Planning:** Qualified POS installers will not take a standardized, cookie-cutter approach to installation. They will perform surveys, ask questions, and analyze your specific needs, including testing existing infrastructure and power lines. The first few weeks of an installation are crucial, so determine how often the vendor will be on-site before, during, and after your launch date.

- **Support:** Meet the people who will be responsible for managing and delivering customer support, and ensure you know exactly what will be provided in terms of response times, repair policies, telephone, online, and in-person support.

- **Facility Tour and Demonstrations:** Get a sense of the vendor's operation by visiting their facility and seeing their repair shop. Ask for an organizational chart and tour the help desk. In addition, ask for a hands-on demonstration of your prospective POS system.

- **Proposals:** Any serious proposal from a vendor should include:

    1. Total cost, through implementation, initial training, live support, and follow-up

    2. Line item description of items, all tasks, all responsibilities, and all costs

    3. Support plan agreement costs and detailed parameters

    4. Detailed implementation information and timeline. Allow 4-6 weeks from time of order to time of installation for a proper implementation.

- **Future Focus:** Good vendors know what's on the horizon with POS technology and the restaurant business. Whether it's customer database marketing, new payment options and requirements, mobile technology, or loyalty programs, the vendor should be able to discuss how such capabilities might work in your restaurant, and help you integrate them when the time is right.

Conclusion

Because today's POS systems touch so many aspects of restaurant operations, it can be difficult to precisely calculate the return on investment they provide. Be aware that much of their value will come from tighter control of, and greater visibility into, important areas, including inventory, labor, payments, and loss prevention. Benefits will also be generated via time savings, giving servers more opportunities to improve the guest experience and freeing managers from back-office duties. POS systems also create opportunities for building sales via more effective marketing to bring guests into the restaurant, and then enhancing customer service once they are there.

About Focus POS

For more than 20 years, Focus POS Systems has provided restaurant management software to hospitality establishments. Our team has installed innovative restaurant point of sale solutions at more than 10,000 unique locations worldwide. Since 1990, we have aimed to give restaurants a competitive edge by providing simple, yet powerful point of sale solutions. Our reliable products combined with our tried-and-true methodology allow restaurant managers to promote efficient operations, increase productivity, improve profitability and deliver business value. Focus specializes in providing restaurant point of sale solutions for table and counter service, take-out, delivery, bars, nightclubs and cafes. Many well-known hospitality organizations rely on Focus POS to streamline their daily operations, including Smoothie King, Coldstone Creamery, Popeye's, Blimpie, and Church's Chicken.