



STOKES WAGNER

ATTORNEYS AT LAW

ATLANTA • ITHACA • LOS ANGELES • PITTSBURGH • SAN DIEGO • SAN FRANCISCO

Hospitality Outsourcing 101

It's no secret within the hospitality industry that restaurants and hotels have thin profit margins, averaging only 3-5%. With the two largest expenses being fixed rent and variable labor, it is not uncommon for venues to focus on labor costs. This undoubtedly explains the growing trend to evaluate outsourcing certain positions. Outsourcing aims to eliminate overtime and the cost of employee benefits while responding to business level fluctuations in real-time. But, if the outsource process is mismanaged, it may create more problems than it solves. Here are our top 5 prevention tips to avoid problems:

- 1) **Show me the money!** Perform a thorough written financial analysis that honestly compares the effective rate of your employed staff to the actual fees charged for outsourced labor. Make sure you will truly save significant green before you engage a vendor.
- 2) **Perform a disparate impact analysis.** Do a majority of the affected employees belong to a protected class? Have any of the affected employees complained about their working conditions? If so, proceed with caution! Seek legal advice to assess exposure.
- 3) **Vet your vendors.** Obtain bids from multiple vendors and interview them to ensure they are compliant with the law and adhere to the same best practices to which you hold yourself accountable. After all, sometimes you get what you pay for; the less expensive option may be less expensive because it improperly cuts corners.
- 4) **Follow the Golden Rule.** Employees are the backbone of our industry. Treat them with the respect they deserve. Give sufficient notice of any transition, offer other open positions to affected employees (when possible), provide severance to those you cannot retain, and urge your vendor to provide affected employees with a preferred opportunity for hire.
- 5) **Watch out for joint-employer pitfalls.** A vendor paying the employees who work under your roof does not automatically shield you from the vendor's negligence, legal violations or other mistakes. Have a lawyer review all vendor contracts and provide you with preventive advice to reduce joint-employer exposure.

Questions? Contact Stokes Wagner.