

ACCOUNTING

in the headlines

How does automated technology in fast food restaurants change the cost structure, break even, and degree of operating leverage?

Change is rapidly occurring in the restaurant industry due to a combination of higher labor costs, increased technological capabilities, and other factors.

Protesters across the world are calling for fast food restaurants to raise their wages, arguing that the current wages paid to workers are not enough to survive on. Various states and cities have passed legislation to require higher minimum wages.

In the meantime, some restaurants have begun experimenting with technology to reduce the number of restaurant workers needed. For example, Panera Bread just spent millions to develop self-service ordering kiosks for all of its restaurants within the next few years. Chili's has invested in tableside tablets for customers to use for ordering food and making payment.

In restaurant delivery (i.e., pizza), self-driving cars or drones could be used to make deliveries, replacing delivery drivers.

Questions

1. The hourly wages of a typical fast-food worker would be considered what type of cost (fixed, variable, or mixed)?
2. How will increased labor costs impact a restaurant's break even point?
3. The costs of self-service ordering kiosks or tablets would be considered what type of cost (fixed, variable, or mixed)?
4. Would you expect a fast food restaurant's cost structure to shift in the future due to automation to be more fixed costs or more variable costs? Why?
5. How does this shift in cost structure due to automation impact a typical fast food restaurant's break even point in sales dollars? Explain.
6. How does this shift in cost structure due to automation impact a typical fast food restaurant's degree of operating leverage? Explain.