

Restaurants Can Provide Livable Wages

A How-To Guide for Restaurateurs to
Transition Profitably to One Fair Wage

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INTRODUCTION

RESTAURANTS CAN PROVIDE LIVABLE WAGES



WITH THE COVID-19 pandemic, the restaurant industry is in a moment of both crisis and opportunity. Initially, many restaurants closed, while others struggled to stay afloat. Millions of restaurant workers experienced unemployment that led to food and home insecurity, and millions faced great challenges in obtaining unemployment insurance, or never received benefits at all. Tipped workers reported experiencing a dramatic decrease in tips and a similarly dramatic increase in exposure to health risks, hostility, and harassment.¹ Not surprisingly, as a result, over half (53%) of workers are reporting that they are considering employment options outside of restaurants; 76% say they are leaving because wages and tips are too low, and 78% reported that they would stay if given a full, stable, livable wage.²

In the face of these multiple crises, many independent restaurant owners have sought to reinvent the restaurant model to be more sustainable for all. It has become clear that, in order to attract and retain talent, restaurants must raise wages and in particular, end the subminimum wage for tipped workers. Prior to the pandemic, the subminimum for tipped workers caused this workforce to experience high levels of poverty, racial inequity, and sexual harassment, and has been a source of incredible economic insecurity and increased hostility and harassment during the pandemic. This Guide provides both an economic model and practical recommendations for how employers can profitably raise wages and end the subminimum wage for tipped workers. In particular, the Guide demonstrates how restaurants can profitably accommodate the wage increases called for in the federal Raise the Wage Act, currently being considered in Congress. The Act would phase out the federal sub-minimum wage received by tipped workers from \$2.13 an hour to \$15 over many years.

Background and Context: The Challenge

Prior to the pandemic, the U.S. restaurant industry was one of the largest and fastest-growing sectors in the nation's economy, accounting for over 13 million workers.³ Workers in this large and growing industry have been some of the lowest-paid workers in the country.⁴ The federal subminimum wage is a legacy of slavery and discrimination. Following Emancipation, railroad companies and the restaurant industry sought to hire formerly enslaved people for

little to no pay, in exchange for tips.⁵ More than a century later, tipped workers are still subject to a subminimum wage. Today, the federal subminimum wage for tipped workers is still only \$2.13 an hour.

Women are the vast majority of the tipped workforce in restaurants. Women, who make up over two-thirds of tipped workers, struggle with more than double the rate of poverty and use food stamps at twice the rate of the rest of the US workforce.⁶ This women-dominated workforce also reports the highest rates of sexual harassment of any industry because they must tolerate inappropriate customer behavior in order to feed their families in tips.⁷

Over the pandemic, the restaurant industry shed over 2.8 million jobs and over 110,000 restaurant establishments shut down operations.^{8,9} Over 60% of tipped workers reported that they were unable to collect unemployment benefits. In most cases, they were told their subminimum wages plus tips were too low to qualify for benefits.¹⁰ Upon returning to work, 70% of workers reported that their tips had declined 50-75%. Many also reported an increase in hostility, health risks, and sexual harassment. Hundreds of women reported that they have been asked to take off their masks so that male customers could judge their appearance and determine how much to tip them.¹¹ Thus, it is understandable that as workers are navigating the new work circumstances, over half have reported that they intend on leaving the profession, and nearly 8 in 10 (78%) say the primary factor that would make them return is a stable, livable wage from their employer.



The Solution

In a post-pandemic economy, many independent restaurant owners are seeking to implement more sustainable business practices that will drastically change the industry for the better.

In early 2021, the Biden Administration called on Congress to pass the Raise the Wage Act. Introduced in January 2021, the bill would raise the federal minimum wage to \$15 an hour over several years and phase out the subminimum wages for tipped workers, workers with disabilities, and youth. Despite the overwhelming popularity of the bill by the vast majority of Americans, Congress has not yet passed the bill.¹² Even in more conservative West Virginia, a recent poll found that 56% of all registered voters and 52% of Republicans in the state support raising the minimum wage, even though their U.S. Senator voted against the measure.¹³ Many Congressmembers who oppose the bill receive contributions from the National Restaurant Association (“the Other NRA”).¹⁴ They argue that increasing the minimum wage and ending the subminimum wage for tipped workers would force many restaurants to close and lead to massive job loss, despite multiple studies contradicting this argument.^{15,16} However, many restaurant owners are increasingly challenging short-term thinking about what is good for their business. Even leaders of the ‘Other NRA’s’ top restaurant chains have contradicted themselves in these arguments. In February 2021, Denny’s CFO Robert Versotek told investors that their restaurants in California—which has raised its minimum wage to \$15 an hour and has never had a subminimum wage for tipped work-

ers—“outperformed” all other states in terms of guest traffic and sales due to the higher minimum wage and lack of a subminimum wage for tipped workers.¹⁷ Beyond increasing consumer spending, raising the wages of workers has the potential to attract more workers and significantly improve the chances that someone will stay in the profession.¹⁸ Research has shown that raising wages can actually cut turnover costs in half and facilitate the transition to more equitable business models, particularly among front and back-of-house staff.^{19,20} With this growing momentum around providing livable wages to a traditionally low-wage sector, now, more than ever before, is the time to encourage and support restaurants to take ownership in reforming the industry.



During the COVID-19 crisis, One Fair Wage launched the High Road Kitchens (HRK) program to allow struggling restaurants to rehire workers and take steps to increase wages and equity in their business. The program is designed to provide cash relief to independently owned restaurants. HRK program members agree to three practices: 1) scale up to pay One Fair Wage to their workers, meaning a full minimum wage with tips on top; 2) undergo a racial equity training and technical assistance program to make changes in their recruitment, hiring, training, promotion, and evaluation practices; and 3) provide low-cost meals on a sliding scale to low-wage workers, health care workers, first responders, and others in need. The program was created to support and incentivize restaurants to take the ‘high road’ to profitability. Paying livable wages will boost loyalty and overall productivity among workers, as well as increase equity in the profession at large—thus driving business success.²¹ This Guide was created in conjunction with the training provided to restaurant owners through the High Road Kitchens program.

One of the ways in which restaurants can adjust to accommodate wage increases is through modest menu price increases. Evidence from states that have increased wages shows that these menu price increases are far more moderate than opponents to wage increases claim they must be. For example, in San Jose, California, a 25% increase in the minimum wage resulted in an average price increase of only 1.1% for full-service restaurants (FSR).²² However, beyond increasing menu prices, restaurant owners have found many other cost savings and operational strategies that have allowed them to transition to higher wages profitably. Multiple studies based on interviews and surveys of employers show that those who invest in their workforce are able to capture greater customer loyalty and avoid the steep turnover costs common in the industry in the long run.²³

THIS HOW-TO GUIDE provides guidance and proven strategies for restaurants transitioning to livable wage models and increased equity. It offers compensation models that utilize the median hourly wages for restaurant workers reported by the U.S. Bureau of Labor Statistics’ Occupational Employment and Wage Estimates Survey and adapts them based on the proposed minimum wage increase in the Raise the Wage Act to provide realistic approaches to the wage transition. This Guide also covers profitable and cost-saving operations strategies to mitigate the upfront costs of increased labor costs.

COMPENSATION GUIDES

OPTIONS TO MAKE ONE FAIR WAGE WORK FOR YOUR RESTAURANT

AS MOST RESTAURANT owners know, labor costs typically take up a third of a restaurant's expenses. One common response to wage increases is to decrease the number of employees or their hours, but most employers find that this decrease in labor also reduces the quality of service.²⁴ Operating an understaffed restaurant means that employees will be overworked, which can lead to greater burnout and turnover among workers.

Another more successful mechanism of adjusting to increased labor costs is to increase menu prices. While many opponents of the minimum wage increase often cite this as a reason for opposing minimum wage increases, the overall impact on menu prices is moderate and only a fraction of the actual minimum wage increase. In this guide, we use the term elasticity to refer to the change in demand when other economic factors, like price or income level, change. We use the elasticity of 0.058 from Allegretto and Reich (2016) to estimate price effects

for restaurants transitioning from the tipped minimum wage of \$2.13 to \$15 an hour and increasing non-tipped workers from their state's current median earnings to \$15 an hour. We use a sample restaurant based in Alabama, which currently has a tipped minimum wage of \$2.13 and a median non-tipped worker wage of \$12.25.

Table 1 shows how the wage increase passes through to menu prices for the sample Alabama restaurant. First, we calculated the percent increase for tipped and non-tipped restaurant workers using the subminimum wage in Alabama and the median wage for non-tipped restaurant workers. For the purpose of this calculation, we assume an even split between tipped and non-tipped workers. Using Drs. Allegretto and Reich's elasticity measure, we multiplied this by the percent wage increases and divided this by two. Based on this calculation, we found that menu prices would only increase by 18% over the course of several years.

In practical terms, this means that as front-of-house and back-of-house wages increase each year per the schedule in the Raise the Wage Act, the menu price for a common American menu item such as a burger will rise moderately

TABLE 1

Projected Impact of Minimum Wage Increase in the Raise the Wage Act on Menu Prices

	Tipped Restaurant Workers	Non-Tipped Restaurant Workers
Wage	\$2.13	\$12.25 ²⁵
Percentage Wage Change with \$15 Min. Wage	601.88%	22.45%
Menu Price Increase	17.45%	0.65%

Note: Assumes estimated minimum wage price elasticity of 0.058 for restaurants as reported in Allegretto and Reich (2016).

Source: U.S. Bureau of Labor Statistics, Occupational Employment and Wage Estimates - May 2019)

TABLE 2

Example of Burger Price Increase With Raise the Wage Act Phase-In

	2021	2022	2023	2024	2025	2026	2027
Subminimum Wage	\$2.13	\$4.95	\$6.95	\$8.95	\$10.95	\$12.95	\$14.95
BOH Wage	\$12.25	\$12.25	\$12.25	\$12.50	\$14.00	\$15.00	\$15.00
Burger Price	\$10.00	\$10.30	\$10.60	\$10.90	\$11.20	\$11.50	\$11.80

Source: RAISE High Road Restaurants calculation of menu price increases, May 2021.

to accommodate the wage increase. Table 2 is an example of how the menu price increase could be phased in for a burger. Restaurant owners and operators interested in understanding how their wage increases would affect menu prices can also reference the Menu Price Calculator²⁶ developed by RAISE High Road Restaurants. Using this tool, employers can gauge how their menu prices will be affected by the Raise the Wage Act.



Traditional Model: The Subminimum Wage

The most common wage model in restaurants today is paying a subminimum wage to front-of-house tipped workers and, per law, facilitating tip-sharing only among tipped, subminimum wage front-of-house positions such as servers and bartenders.²⁷ However, numerous studies have shown that this model creates race, gender, and occupational inequities.

Data shows that workers of color are concentrated in more casual restaurants rather than in fine dining, where they make less money in tips. Even when workers of color are in fine dining restaurants, they are concentrated in positions that receive fewer tips, such as bussers rather than servers and bartenders, and in non-tipped positions in the back of the house.²⁸ Additionally, customers’ implicit bias results in tipping practices being correlated to the race, gender, and perceived attractiveness of workers. Black tipped workers, for instance, have reported a far steeper decline in tips, as well as more issues with customers when enforcing COVID-19 guidelines, in comparison to their White counterparts.²⁹

The first, and most impactful step to challenge the discriminatory norms prevalent in the restaurant industry is to provide all workers with a full minimum wage with tips on top. Coupled with this ‘One Fair Wage’ model, employers should also consider meaningful reform to tip-sharing practices that are more equitable among all non-management employees in the restaurant. There is no one-fits-all formula that can be used for restructuring compensation, but this Guide offers potential models for aspiring “high-road” employers to consider.

One Fair Wage Models of Compensation

While fair, livable wage models have been in practice in hundreds of restaurants across the country long before the COVID-19 outbreak, we focus specifically on three models that employers have transitioned to during the pandemic: 1) a full minimum wage for all employees with tips on top of wages, shared among all non-management employees; 2) a full minimum wage for all employees with a mandatory service charge distributed by the employer among all employees; and 3) a gratuity free model in which employees are paid full, livable wages by their employer, and menu prices incorporate what was previously paid by customers in the form of gratuities. The tables below demonstrate how these models can be used with a \$15 minimum wage with gratuities on top for all employees, using the example of a restaurant with ten employees. They also show how a moderate menu price increase in all three models can help such a restaurant accommodate a wage of \$15 with gratuities on top for all non-management employees profitably.

Corrinna Stum

Ruby's West End | Portland, Maine



Corrinna Stum got her start in the restaurant industry during high school as a dishwasher and busser. She gradually moved up through the industry serving, bartending, and landed in the kitchen taking on an administrative role in which she developed training materials for back-of-house staff, then later shifted to supporting the company's expansion in new locations. By the age of 28, she had opened twelve restaurants for other companies, and in April 2021, she finally opened her own restaurant – Ruby's West End. After working for years as an employee in the industry, Corrinna knew she wanted to have a restaurant that made workers feel valued and provided livable wages. "It is personal to me. I've lost a lot of friends in the industry to suicide and it was because they felt like they didn't matter and that they could not keep up with life. My friends and I would be working two jobs, clocking in 80 hours a week and still couldn't afford to pay our bills and enjoy our lives." Ruby's West End began with paying all their workers a full minimum wage with optional tips on top, and a 20% service charge split between front and back-of-house employees. While she is not currently in a place yet to offer health benefits, she does offer to pay half

for employee health services such as therapy, and personal finance counselling, and has plans to offer insurance benefits in the future.

“When you’re not paid a livable wage, it makes you feel like you’re not a real person. I’m tired of that. Once I had the opportunity to do this on my own, I wanted to make sure every single person would not only feel important, but that it would also be reflected in their bank accounts.”

The biggest transition Corrinna made was shifting her mindset regarding expenses. Restaurants she worked at in the past paid on average \$350 per month on a Point-of-Sales (POS) system or \$200 per month on a reservation platform. As a server, she knew operators could save much more if they simply trained and compensated staff for performing these services instead. “I remember thinking people could save money by entering this into a spreadsheet and putting that money back into our pockets.” At Ruby’s West End, Corrinna developed a training program for all her workers, teaching them how to manage reservations, schedule and track shifts, navigate their POS system – and through the process, learn other basic computer skills. Through these trainings, she created opportunities not only for internal advancement, but also to gain marketable skills that her employees can take to any other job they choose. The company now has one project manager for each task that was typically contracted out through a separate company.

“Every single person comes out of the experience with a real job skill that they can take anywhere they go. Whether they go to work at another restaurant or something else, they will have skills in time management, communication, and leadership.”

She also found creative alternatives to contracting with linen companies. “We picked up linens from a thrift store and have neighbors who donated their linens to us as well as a nearby family laundromat that provides linen services. Doing this saves us about \$150 a week.” By taking a holistic look at how she spent money in everyday operations of the restaurant, Corrinna was able to figure out what services could be cut and transferred into fairly compensating her workers. In practical terms, this translated to Corrinna and her team creating separate bank accounts where their revenue for payroll and expenses were deposited. Every day Corrinna and her team review sales and pull whatever labor, tips, and charges are recorded for the day and transfer that amount from one account to another. “This way we always know we have what we need to pay our team, for rent, for taxes, and for contingency – and can see the current balance for our expense account. It also helps us not overspend.”

Although Corrinna and her team have managed to find creative ways of absorbing costs, it is not without its challenges. Initially, the service charge put off some guests that are accustomed to determining how much to compensate workers for themselves. However, in response, Corrinna has just been more communicative about why it is important. “We put it on our website and it describes what we do, why we do it, who it affects, and how it counters the traditional model.” She includes descriptions of the service charge model throughout her restaurant--in windows, in front of the POS system, and in the ticket split. Even in job posts and interviews with prospective employees, Corrinna leads with the overall mission of providing livable wages and how they accomplish this. Despite the negative feedback from a certain subset of customers, the community as a whole has been largely

supportive of their mission, and leave tips in addition to the service charge.

“...[W]e had a group of regulars and tourists that consistently come in because we pay One Fair Wage. They say they want to support us and like how we take care of people. On weekends, our servers receive 40% tips. We’ve had to go back to make sure they know about the service charge and they always say ‘we know and want this tip on top of the service charge because we love what you’re doing.’”

Aside from the positive response from customers, Corrinna has also noticed how the model has impacted her team for the better. Initially, two of her employees would come in exhausted from working other jobs, but after she talked to them, she found a way to compensate them enough so that they did not need to work those positions. She found that they looked healthier, were more well-rested and happier, and offered higher quality service. Corrinna fundamentally believes that investment in workers pays the company back tenfold. “No one fights for tables or worries about being cut early. Everyone’s helping each other, even coming in early or staying late to help out off the clock.” The model has enabled a tight-knit team that cares for each other and feels equal ownership over the success of the restaurant.

“When you take care of your people, they will take care of you. Your operations are going to get a lot easier and it might take a bit more on your side in terms of management and leadership, but that’s your job anyway.”

Corrinna is watching the industry change for the better. She strongly believes that employers taking a stand and implementing the one fair wage model – a full minimum wage with tips on top – will have a much more positive response from their employees and customer base. “We have some friends in Indianapolis that are starting the one fair wage model and it seems to be going well. I’m hopeful more conservative areas will start picking this up too.” She encourages employers that are still nervous or anxious about costs associated with raising wages to think about that one employee they have had for however many years that has contributed tremendously to the restaurant’s success and think about what other costs could be cut to make this worker’s quality of life improve.

“Just consciously make an effort to consistently think about who is important to you and not what is important to you.”

MODEL 1

One Fair Wage

IN THIS MODEL, everyone in the restaurant is paid at least a full minimum wage, and tips are welcomed from guests as a supplement to wages. This is the most common model in the seven states that have mandated One Fair Wage, as it is consistent with the American custom of tipping and allows all non-management staff to partake in customer tips. Front-of-house (FOH) employees, like servers and bartenders, take part in a tip distribution system

that includes support staff like bussers and runners, as well as back-of-house (BOH) staff like line cooks, dishwashers, and prep cooks. All team members are considered integral to the guest experience, and so all benefit from some portion of gratuities. The tip distribution system can vary from restaurant to restaurant, with some sharing more or less of the percentage of the tips collected with employees in each different position.

In order to implement this system in a restaurant that currently pays a subminimum wage, the staff would need to understand how it benefits all of them. Front-of-House (FOH) workers would receive a raise in direct wages from their employer, and thus a more consistent income, even on slower shifts. Back-of-House (BOH) workers would benefit by receiving a portion of the tips collected. Usually, the amount added to FOH workers' paychecks can be at least equal to the amount of tips deferred to the BOH team. This means the

TABLE 3

Model 1: One Fair Wage

Annual Sales: \$1,155,304

5 Front-of-House Employees

5 Back-of-House Employees

	Traditional	One Fair Wage	% Change
Net Payroll	\$155,165	\$154,426	-0.48%
Wage Payroll	\$155,165	\$294,218	+90%
Tip (%)	18%	18%	
Tip Collected	\$207,955	\$207,955	
Service Charge (%)			
Service Charge Collected			
Menu Price Increase (%)		+12.1%	
Menu Price Additional Sales		+\$139,792	

Source: RAISE High Road Restaurants sample compensation model, June 2021.

FOH workers would see no noticeable change to their take-home pay, but BOH workers would see an increase in their take-home pay.

Table 3 shows how menu prices can be adjusted using the One Fair Wage model. For a restaurant making \$1.15 million in annual sales, an increase in menu prices of 12% will offset a 90% increase in labor costs.

Katie Button

Curate and La Bodega by Curate | Asheville, North Carolina



Katie Button is the Executive Chef and co-owner of Cúrate and La Bodega by Cúrate in Asheville, North Carolina. Katie grew up in a family that worked in the restaurant and catering business, and saw firsthand how a living wage can improve someone's quality of life. Katie and her family opened Cúrate in 2011, and La Bodega by Cúrate last year in response to the COVID-19 pandemic. Initially, Cúrate paid the subminimum wage for tipped workers of \$2.13 per hour to servers and bartenders, with no tip sharing with back-of-house employees. The company ensured that back-of-house employees earned a living wage as determined by a local nonprofit organization called Just Economics. With this model, the pay disparity between the front-of-house and back-of-house employees was significant.

At the onset of the pandemic, Katie's restaurant group was forced to lay off all of its employees. Under a mandated shut down, there was nothing Katie and team could do other than help workers navigate the unemployment process. Witnessing the industry's financial uncertainty, and anticipating financial struggles for workers, Katie decided that it was time to fully commit to a company-wide pay structure change.

When the mandated restaurant shut down began to lift, Katie knew it was an opportunity to bring people back—this time with a different job offer and a completely different pay structure. The team adopted a more equitable tip-sharing model to

counter the pay disparity between front-of-house and back-of-house workers, in which all workers are paid a full, livable base wage and the tips earned each day are weighted by position and by hours worked and split across the entire team. The company paired this with modest adjustments to menu prices and timing services to cover costs. In the long run, the transition to one fair wage allowed Katie to create greater equity among restaurant workers in her company.

To reach an equation that worked for the company, Katie and her management team looked at pre-pandemic sales in 2019 and extracted a 3-month sample period from the sales. Then, they calculated how much it would cost to eliminate the subminimum wage and replace it with a full minimum wage for all workers, and tip sharing among all non-management employees.

“We calculated the new structure to see how it would impact each employee and how it changed payroll. Over time, we figured out a model that works at 50% capacity, and is going to work great at 100% capacity, while maintaining equitable wages across the board, and completely eliminating the sub-minimum wage.”

The leadership team found that the labor cost did not change drastically with the new structure. In Katie’s model, all workers are paid a base salary above the current minimum wage in North Carolina (usually from \$10-15, depending on position, tenure, and experience) plus tips that are weighted then split accordingly. Including tips, front-of-house workers earn between \$25-35 an hour, and back-of-house employees earn between \$17-\$25 an hour. All employees are eligible for the company’s health benefits package, paid time off, sick days, and a 401(k)–

making Katie and team feel more secure that the jobs are viable career pathways.

“This new pay structure makes us feel good about the opportunities we provide. To have paid time off, sick days, health insurance, and a 401k for all of our workers is a big deal, and vital to employees sticking around for the long haul.”

Katie knows there is still work to be done to solve equity in the restaurant industry, but the successes the company has observed firsthand are exciting. She attributes the ability to make the change to her team’s patience throughout the process, and an open-door policy for questions and concerns. She noted, “It takes a lot of one-on-one conversations, a lot of listening, and a lot of reflecting.” Katie also explained that any initial negative reactions to implementing the One Fair Wage model were a result of the abruptness of the change, rather than the new pay structure itself. “Understandably, people get nervous with changes; no matter how many times you tell them that you’ve done the calculations, they need to see it reflected on their paycheck.” Katie’s desire to foster a more collaborative atmosphere in her restaurants – of one united team striving toward the same vision – ultimately reaffirmed her choice to implement a One Fair Wage model.

“The one piece of advice that I would give restaurant employers is to focus on employee feedback equitably. If you only listen to whomever is complaining, you might miss the stories of the lives that you’re changing for the better. Reach out to the people who you’re not hearing from to ask them how it’s going. Ask everyone, don’t be afraid of change, and keep your door and ears open.”

In addition to a more collaborative atmosphere and a move toward greater equity in the restaurant industry, Katie found that implementing a One Fair Wage model made it easier to implement other changes. “The hardest part – making the commitment and making the change – is now behind us.” Now, there is a team in place to create pathways for people to move into different positions within the company through training programs, internships and increased educational opportunities, allowing workers who want to advance the opportunity to move into higher-paying positions.

“We need pay to be great for all positions in our company, and benefits to be equally great, so that people are able to live here, enjoy their life, have time off, and for them to stay with the company for a long time.”

MODEL 2

One Fair Wage with Service Charges

SOME RESTAURANTS CHOOSE to pay a full minimum wage to all employees, and then add a percentage to every check as a mandatory service charge. Typically, this ranges from 15-22%. These service charges are then used to increase take-home pay for all employees, including FOH and BOH. This model is most commonly used in restaurants that have a higher menu price point, with customers who are not as price-conscious. While there are several

benefits to ending traditional tipping in favor of implementing a mandatory service charge, arguably, the most important one is that doing so would remove the implicit biases that customers may resort to while tipping. Studies have found that Black female tipped workers in America make an average of five fewer dollars per hour than their White male counterparts.³⁰ Service charges would completely eliminate this unfortunate reality, requiring customers to provide a set amount of gratuities regardless of their implicit biases toward the server or other tipped workers. However, an important downside of this model to note is that currently, the Internal Revenue Service (IRS) treats service charges as sales. Therefore, the Federal Insurance Contributions Act (FICA) tax credit that restaurants can use to offset taxes on tips that are passed directly to employees is not available to restaurants using a service charge.

TABLE 4

Model 2: One Fair Wage with Service Charge

Annual Sales: \$1,155,304
5 Front-of-House Employees
5 Back-of-House Employees

	Traditional	One Fair Wage	% Change
Net Payroll	\$155,165	\$154,426	-0.48%
Wage Payroll	\$155,165	\$294,218	+90%
Tip (%)	18%		
Tip Collected	\$207,955		
Service Charge (%)		18%	
Service Charge Collected		\$207,955	
Menu Price Increase (%)		+12.1%	
Menu Price Additional Sales		+\$139,792	

Source: RAISE High Road Restaurants sample compensation model, June 2021.

Implementing this model takes staff and guest education, as well as clear communication about the purpose of the service charge. Guests should understand that these charges are used to directly add to employee pay, and staff should know that increased sales also increase service charge amounts, and, therefore, their income.

Table 4 shows once again that a menu price increase of 12% can offset the labor costs of paying all workers one fair wage.

RON HSU

Lazy Betty, Atlanta, GA



Ronald Hsu is the chef and owner of Lazy Betty in Atlanta, Georgia. The son of immigrants, Ron has been in and out of kitchens and restaurants his entire life, and witnessed the institutionalized discrepancies between restaurant roles. Ron opened Lazy Betty during the onset of the pandemic. Initially, Lazy Betty had paid the sub-minimum wage for tipped workers to front-of-house workers, with a service charge on top. But after seeing the generosity and open-mindedness that the crisis brought out in his community, he took to the opportunity to pay all staff a full, fair wage with tips on top, adopted a more equitable service charge model, and modestly increased menu prices to cover costs.

“It’s about making the workplace more equitable for everyone involved.”

Before opening the restaurant, Ron opened dozens of pop-up shops around Atlanta and surveyed the community. Through direct polling of over 300 customers, he found Atlanta to be very open to service charges and included gratuity. Now, tipping is built into the price of a meal at Lazy Betty, but Ron finds people still tip more than ever. “Even though we do a service charge, people are leaving more tips than before the pandemic.” Because of this early research, Ron and his team were prepared to communicate with any hesitant customers and servers. “The fact that we have a service charge is very explicitly stated at all stages of booking – we make it very clear.” The service charge gets split between the front and back of house staff in various

percentages depending on whether it's a bar sale or a tasting menu check.

“The [subminimum wage] is institutionalized and the industry standard, so anything you want to change on that scale has to be done in baby steps – you have to communicate not only to guests but staff.”

Ron's pay structure is still constantly evolving, but he credits the success of this current pay iteration to communication. When he moved to provide a full minimum wage for all workers, he further modified the service charge model to account for the costs. Now, the service charge gets split between front- and back-of-house staff in various percentages depending on whether the revenue is coming from the bar, takeout menu, or tasting menu. Ron received some initial pushback from workers and customers in response to these changes, but he reports that this initial pushback was largely due to fear of the unknown rather than any failure of the new system. “Show them the data. You have to show them how much they would've made based on last year's sales. It's about proper communication and education.” His staff now makes as much as 30% more because customers continue to be very generous with tips, even with the service charge. It has not only increased equity amongst all staff, but has also allowed for a more efficient operation of the restaurant.

“If you use the [subminimum wage], eighty percent of front-of-house work has to be customer facing. But if you pay everyone [the] minimum wage, as an operator you can have your front-of-house do other things. It gives [you] more flexibility to operate your restaurant.”

Due in part to the increased efficiency and boosted morale of its staff, the Atlanta restaurant has been able to weather the labor shortage facing the industry. “We have had so little staff turnover – and that labor shortage is a common theme. But we have no issues with staffing right now, and I think it's because we can pay the back-of-house a very good wage.” So far, he has found little impact of the service charge model on sales, and now sees other restaurants following suit. “I've been out to eat about five or six times this year. I have found half of restaurants now implement auto gratuity and service charges.”

But more than good business, Ron hopes to help run an ethical restaurant.

“People talk about institutional racism, and this is part of it. The [subminimum wage] evolved from slavery. The people who are getting the fruits of tips are predominantly front-of-house servers who are white males. The people making less money are people in the back-of-house who are minorities. It's something we shouldn't turn a blind eye to.”

MODEL 3

One Fair Wage with Hospitality Included

THE THIRD MODEL, a gratuity-free model, involves moving away from tips altogether, and providing all workers a livable, professional wage. This is the most commonly used model globally, but is rare in the United States, where tipping is customary. The idea is simple: the price on the menu is all-inclusive. There is no expectation of tips, and staff are paid a living wage. Management and ownership have complete control over all money that comes

in, and employees answer solely to their employers, rather than being compensated directly by guests.

However, there are some disadvantages to this model for employers. First, whereas tips are not taxed, in a gratuity-free model employers cannot access the FICA tax credit associated with tips. Second, American consumers are accustomed to pre-tip menu prices, so they may experience “sticker shock” in a gratuity-free restaurant, even when the overall price on the menu may actually be lower than the price post tax and tip at a traditional tipping establishment. Finally, the experiences of workers in this model may be uneven. While some restaurants may use this model to offer excellent wages and benefits to their employees, others may use it to lower overall costs by keeping wages just above the minimum.

Implementation of this model takes very careful communication, both internally with workers and externally with the

TABLE 5

Model 3: One Fair Wage with Hospitality Included

Annual Sales: \$1,155,304
5 Front-of-House Employees
5 Back-of-House Employees

	Traditional	One Fair Wage	% Change
Net Payroll	\$155,165	\$156,777	+1.04%
Wage Payroll	\$155,165	\$410,944	+165%
Tip (%)	18%		
Tip Collected	\$207,955		
Service Charge (%)		0%	
Service Charge Collected		\$0	
Menu Price Increase (%)		+22%	
Menu Price Additional Sales		+\$254,167	

Source: RAISE High Road Restaurants sample compensation model, June 2021.

public. American restaurant workers and consumers alike do not tend to be familiar with this model. However, if carried out in an open and transparent way, this model can give team members incredible stability and consistency, and remove many of the toxic behaviors associated with the traditional subminimum wage and with tipping culture. Staff will need to earn enough money and be treated well enough that they buy into the model completely and help educate guests on its merits. Employees should also not feel tempted to look for work elsewhere, since tips can, in some cases, offer a higher ceiling on their take-home pay.

In Table 5, the sample restaurant operator increases the menu price by 22% to be inclusive of tips and to provide all workers One Fair Wage.

OPERATIONS GUIDES

PROFIT-GENERATING AND COST-SAVING STRATEGIES WHILE RAISING WAGES

HUNDREDS OF ‘HIGH ROAD’ restaurants nationwide have found many ways to raise wages, maintain their current staff, and increase income simultaneously. Restaurant owners, management, and staff have devised creative ways to pursue a ‘high road’ model—they sell branded products, increase menu prices moderately, create clear marketing plans, and negotiate stronger contracts with vendors. A study on minimum wage increases in Georgia and Alabama suggests that employers can offset 23% of the labor cost increase by improving operational efficiencies.³¹ Restaurant owners in this study employed strategies like adding new marketing programs, reducing food waste, hosting special events or private parties, and improving overall quality of service and cleanliness of space.³² This portion of the Guide provides cost-saving and revenue-generating recommendations for restaurants to mitigate upfront costs associated with a federally or locally mandated increase in the minimum wage.

Cost-Saving Strategies

1. Renegotiating Contracts

With the onset of the pandemic, many restaurant owners have entered negotiations with contractors and landlords to find a more reasonable deal to compensate for the unpredictability of COVID cases and local restrictions. These negotiations can also occur when transitioning to a One Fair Wage model to compensate for additional labor costs. Below are a few options for employers to consider:

Strike Auto-Renewals

An auto-renewal clause in a vendor or merchant agreement with a waste removal, laundry, or landscaping company allows providers to extend an original agreement and continue billing without a restaurant owner’s re-approval. Some contracts with auto-renewal clauses hook employers unknowingly into multi-year contracts if not canceled within a stipulated time frame.³³ If a restaurant owner has not missed the 30 to 60 day renewal period, there still might be an opportunity to negotiate a new or modified contract that better suits their needs.

Percentage Rent Exclusions and Deductions

Many restaurant leases contain a percentage rent clause that requires tenants to pay their landlord a portion of the gross sales or revenue generated from their business. Ideally, a restaurant's occupancy costs—including rent, common area fees, and property taxes—should make up 6-10% of total sales.³⁴ When negotiating a percentage rent clause with a landlord, it is important to ensure the definition of gross revenue or sales contains customary exclusions or deductions that allow the owner to exclude any items that make little or no profit, any amounts not retained or collected, and any amounts that are separate from services or core products. Some common examples of potential exclusions are service charges, local taxes, value of discounts given to employees, insurance proceeds, net amount of cash or credit refunds, and any receipts from telephones, locks, or vending machines installed solely for the use of employees.³⁵

Credit Card Swipe Fees

Credit card processing fees may not seem like a significant cost alone, but they can add up quickly with every transaction. When combined with assessment fees, authorization costs, and monthly fees, the final monthly bill could be quite large. However, what employers may not know is that these fees are often negotiable. Several key ways to negotiate with processor companies is by leveraging the business' transaction volume, credit history, and experience.³⁶ The higher the volume, the more room restaurant owners will have in the negotiation. Another method to reduce credit card processing fees is by taking steps to decrease the risk of credit card fraud. This can be done by accepting cards in person as much as possible, ensuring the checkout account and terminal are set up properly, and using an address verification service (AVS) to verify that the cardholder's billing address is correct.³⁷



2. Food Waste Prevention

According to a study by the Natural Resources Defense Fund (NRDF), restaurants are one of the largest sources of food waste generated in the cities surveyed.³⁸ Food waste prevention is an opportunity for cost reduction that can help employers offset increasing labor costs and increase other benefits. On average, at least 4-10% of all food purchased in restaurants is wasted before ever reaching a customer, costing about \$40,000 to \$100,000 for every \$1 million in food purchases.³⁹ By tracking the amount of front and back-of-house waste, adopting new practices for food purchasing, storage, and cooking quantities, and repurposing surplus, restaurants can reap significant savings.⁴⁰ A 2017 survey of thousands of businesses found that for every dollar invested in food waste reduction, restaurants can realize approximately \$8 dollars in cost-savings.⁴¹

Money-Making Strategies

1. Outside Sales

Restaurant Merchandise

Over the course of the pandemic, there has been an unprecedented emphasis on restaurant business closures, leading many to champion their local favorites. One way restaurants have capitalized on this attention is by developing and publicizing their merchandise, which could include logo hats, t-shirts, hoodies, and handbags.⁴² It is a great option to create an additional revenue stream and more marketing buzz, especially for restaurants that already have an established customer base and a strong branding presence.⁴³

Catering

Catering is another method that can boost revenue for a restaurant transitioning to higher labor costs. Many existing restaurants already have a customer base and the resources needed to transition into the catering business. For restaurants lacking the necessary equipment, it is also possible to rent equipment and transfer the costs to the booking fee. The basics of restaurant catering typically require a breakdown of what equipment is actually needed to cater to both large and small parties, and a plan for menu items being offered.⁴⁴

Private or Special Events

Another way to boost revenue when anticipating high labor costs is to host more promotional events and private parties. Restaurants can accomplish this by partnering with either another business or with a charity to bring in an added customer base. Many businesses also advertise that they host private events, such as birthdays, wedding receptions, or other intimate gatherings, to generate more revenue. Additionally, businesses can set food or beverage minimums and charge a venue fee to increase revenue and cover labor costs.



2. Clear Marketing Plan

A clear marketing plan is a guaranteed strategy for boosting sales and overall revenue. Restaurants can employ a variety of methods to more effectively target consumers by creating an attractive website, having an engaging social media presence, and developing promotion plans. A key component of successful marketing is having a strong brand. Branding helps build a specific reputation around a restaurant and is intended to leave a distinct impression on customers about what to expect.⁴⁵

CONCLUSION

WHY LIVABLE WAGES ARE GOOD FOR RESTAURANTS



DESPITE THE IMMEDIATE costs of increasing the wage for workers, many employers that have already done so experience incredible long-term returns on their investment.

Turnover Reduction, Increased Customer Satisfaction, and Employee Morale

The restaurant industry has had one of the highest turnover rates in the country—a widely recognized challenge for restaurant owners.⁴⁶ In 2019, the turnover rate for the accommodations and food services industry was 78.6%.⁴⁷ According to Black Box Intelligence, a marketing and human resources firm, turnover causes employers to lose nearly \$2,000 per hourly employee.⁴⁸ High turnover costs are largely due to the constant recruiting, interviewing, and training of replacement workers. The recruitment pipeline is costly and includes the labor time invested by managers and new-hire training. High turnover costs are also associ-

ated with the loss of experienced employees. Compared to experienced staff, new hires tend to be less productive, provide lower-quality service, and altogether require more attention from other staff for training and development needs.⁴⁹

A majority of the costs associated with turnover can be addressed by paying workers well. A 2014 study by researchers at Cornell University demonstrated that employers can cut their employee turnover almost in half by increasing wages and providing better benefits.⁵⁰ The study also found that workers in ‘high road’ restaurants have higher morale, investment, and productivity, and were thus able to provide better service.⁵¹ Underpaid workers are much less likely to be engaged at work and thus less productive, as they tend to view their job as a means of survival until they find a better option. Recent surveys have confirmed that one of the main reasons employees leave their jobs is to pursue higher compensation.^{52,53} When restaurant workers are taken care of, they stay longer, are more productive, and provide better quality service.⁵⁴



Increased Consumer Spending – Businesses Thrive with One Fair Wage

There is comprehensive evidence that most small businesses can absorb increased labor costs without losing revenue or reducing their workforce.⁵⁵ Employers in the seven states (California, Oregon, Washington, Nevada, Montana, Minnesota, Alaska) that pay a full minimum wage for tipped workers with tips on top have fared well and even better in terms of sales, employment, and establishment growth. Restaurant sales growth is higher in states that require employers to pay the full minimum wage to tipped workers. According to 2017-2018 estimates by the National Restaurant Association, restaurant sales in states that implement One Fair Wage grew by 17 percent, compared to 15.6 percent in subminimum wage states. California, a One Fair Wage state, had the highest restaurant sales, topping over \$97 billion—reflecting an annual restaurant sales increase of 18 percent.⁵⁶ As recently as April 2021, Denny’s CFO revealed that its chain’s restaurants in California outperformed all other states in terms of sales and guest traffic, despite the state’s minimum wage increase.⁵⁷

Restaurant employment and restaurant establishment growth rates are also equal or higher in states that pay the full minimum wage to all workers. From 2011 to 2016, full-service restaurant employment (FSRE), where tipping is concentrated, grew by 20.4 percent in One Fair Wage states, compared to 16.37 percent in subminimum wage states during the same time period.⁵⁸ From 2011 to 2016, full-service restaurants in One Fair Wage states grew by 9.44 percent, compared to 8.8 percent in states that pay the subminimum wage.⁵⁹

Meanwhile, even amidst the COVID-19 pandemic, businesses in subminimum wage states have closed at higher rates than those in states that mandate a full minimum wage. The seven states that do not have a subminimum wage for tipped workers have had, on average, almost exactly the same rate of decline in open hospitality businesses, as states with a subminimum wage. According to data published by Opportunity Insights, the mean rate of decline in open businesses between January 2020 and January 2021 for the seven states that require a full minimum wage for tipped workers is 49.9 percent, and the mean rate of decline in open hos-

pitality businesses for the other 43 states that allow a subminimum wage for tipped workers is 49.4 percent.⁶⁰ Some of these seven states have had the greatest COVID restrictions of almost any state, but still have not experienced a greater decline in open hospitality business rates than other states.⁶¹

Despite contentious political arguments to the contrary, economic research shows that businesses and workers alike benefit from a higher minimum wage. The increase in low-wage workers' income generates increased spending in the local economy. The workers who would receive this wage increase are more likely to spend it, compared to higher-earning households.⁶² A study by the Federal Reserve Bank of Chicago found that a \$1 raise for a minimum wage worker translates to an additional \$700 in consumer spending by their household over the course of a year.⁶³ This increased demand will provide some relief to the struggling restaurant industry.

If we are not willing to hold our leaders accountable to address the subminimum wage and the hardships it imposes on millions of workers and their families, the status quo will continue. Employees will continue to suffer, businesses will keep losing their talent, and communities will face an even steeper climb out of the pandemic. This Guide demonstrates that restaurant owners have the power to adapt to providing livable wages to their workers. Hundreds of restaurants have already done so in the wake of the industry's severe staffing crisis. When employers pay livable wages to their workers, it improves not only the well-being of workers, but the U.S. economy as well. A more sustainable restaurant industry may be long overdue, but it is finally within reach.

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