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MICHIGAN ROSS

How do I reimagine my restaurant pricing strategy to offer greater transparency to customers?

COVID-19, inflation, and worker shortages are forcing restaurants to reconsider how they compensate employees and retain customers. While food and labor costs are rising, customers are becoming increasingly price conscious. One way to bridge the gap is through greater price transparency. Here's how:

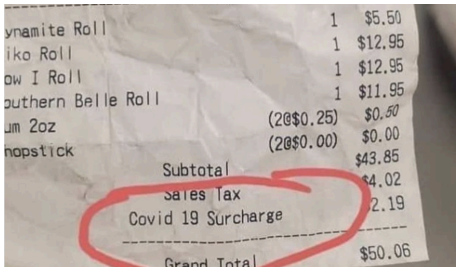


Step 1: Implement a fee-based model

During COVID-19, service charges exploded across the restaurant industry to mixed customer responses. Often it represents a percentage of your bill to help cover costs of supply chain shortages, prevent laying off workers, or make up for declines in revenue.



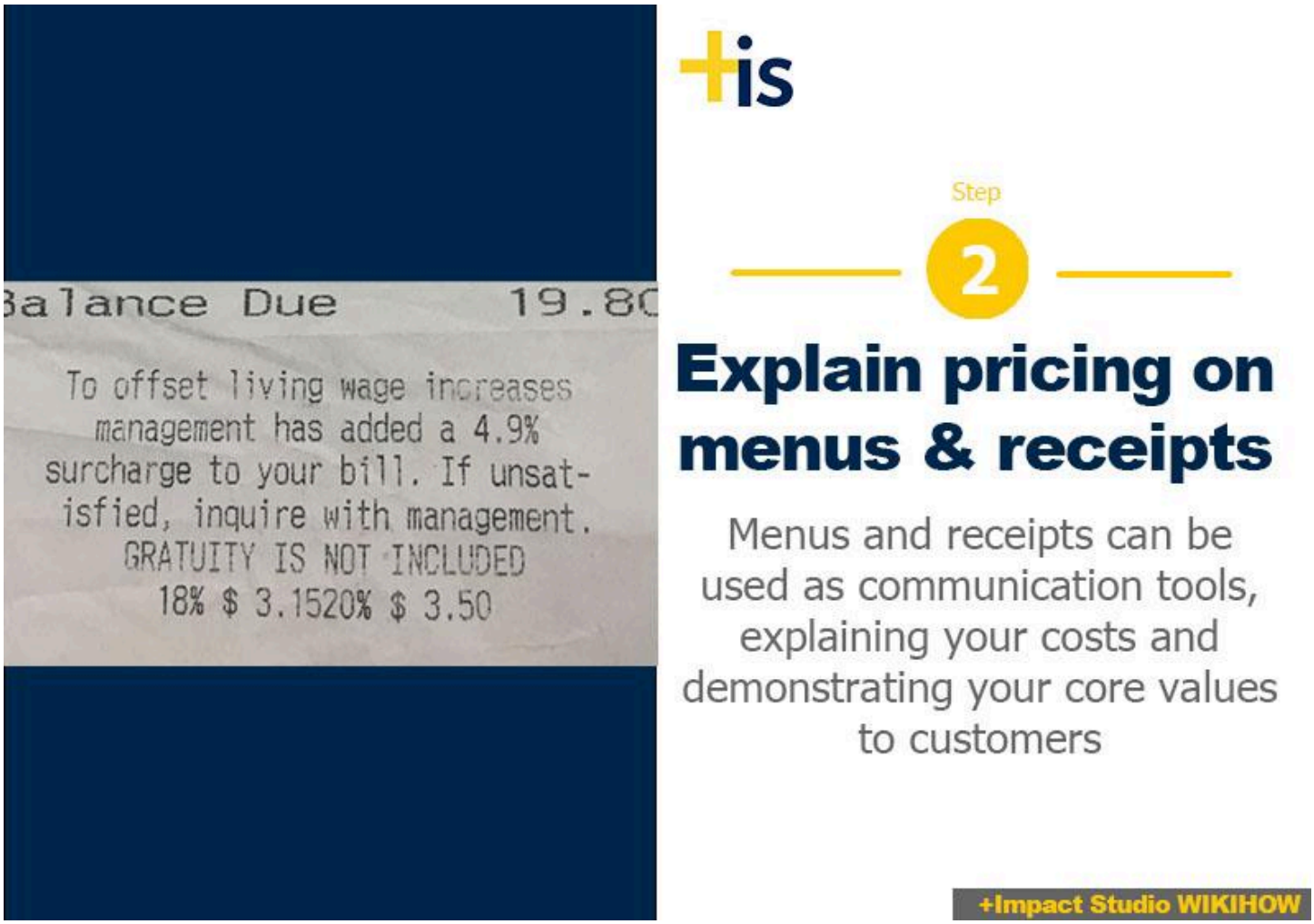




While customers are often wary of service charges, the pandemic made some restaurant goers more amenable to price increases. When paired with transparency about what those additional costs cover, service charges are an opportunity to more fairly compensate your workforce.

Key components to implement a successful service charge include:

- **Determine how to spend the service charge:** most restaurants divide service charges among non-tipped staff, like line cooks and managers.
- **Understand your state's labor laws:** some states require changes to hourly wage structures when implementing service charges or pooling tips.
- **Communicate with your staff:** Staff will understandably be concerned when their wage model changes. Set aside one-on-one and group time to explain how wages will increase and by how much. Ensure employees can track wages regularly to see the benefits.
- **Communicate with your customers:** Service charges have the power to leave customers feeling taken advantage of if not communicated transparently. Explain on your menu and your receipt what the service charge is covering and why, and offer guidance on tip etiquette aside from the service charge. See below for ideas.



Step 2: Explain pricing on menus and receipts

Especially with the expansion of delivery platforms and online ordering like GrubHub and UberEats, customers are sensitive to changing prices and vague fees. At the same time, they want to support restaurants that support their employees. You don't need to "race to the bottom" with your prices to retain customers; you just need to explain them and remain consistent.

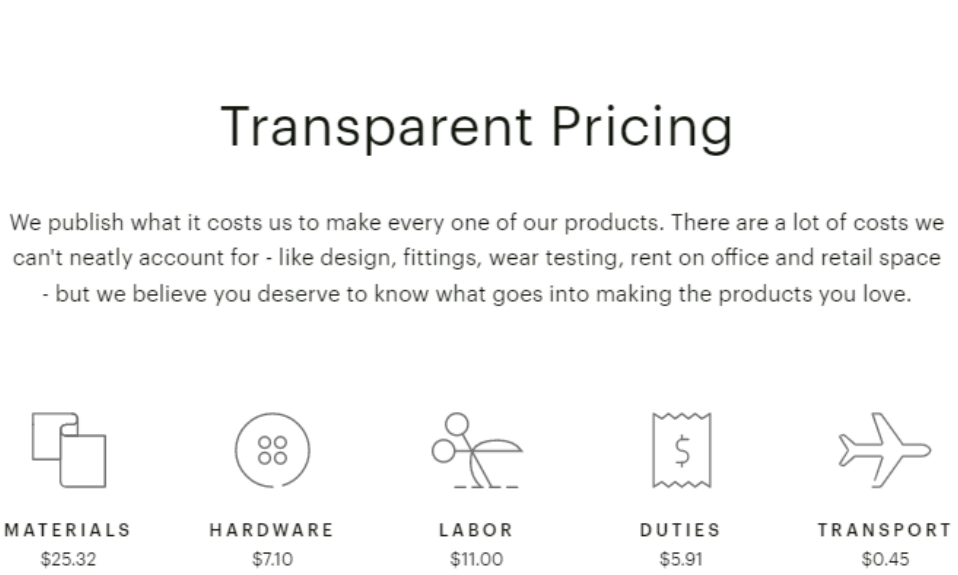
Some fee structures and phrasing that restaurant groups are using today:

- Our 20% service charge goes directly to paying all our staff a living wage. You are welcome but not required to leave additional gratuity. (The Culinary Creative Group, Denver CO)
- Join our "tip the kitchen" initiative by leaving an additional gratuity for our back of house staff. We match kitchen gratuities up to $500 per day. (5th Street Group, Charlotte NC)



Step 3: Imagine radical price transparency

Today's customers are passionate about supply chain transparency. Responsive companies are responding by pulling back the curtain on their sourcing, labor practices, and costs. Though Everlane clothing company's reputation for price transparency has come into question, their idea is an important one. Would customers pay more (and be more loyal to) businesses that explain exactly why their items are priced the way they are?



A snapshot of an Everlane product page

What if a restaurant could integrate their price management and point of sale softwares to offer a receipt that itemizes food, labor, and infrastructure costs––demonstrating exactly what their business needs to charge to make a profit? A $20 burger is a lot more digestible (pun intended) when you know that $6 went to ethically-sourced ingredients, $8 to workers paid a living wage, $2 to building and management costs, and $4 to restaurant profits.

In Closing...

As you rethink your restaurant operations to provide greater job quality to employees, price transparency is an important tool to build trust and loyalty with your customers. Service charges that are clearly explained on menus and receipts are a great start to better support your staff and customers; itemized receipts and other ideas for radical price transparency could be a way to set your restaurant apart even further.

About the Authors

Jenan Makki, MSI Student at the University of Michigan

jymakki@umich.edu

Jenan Makki is a first year graduate student at the University of Michigan - School of Information, specializing in User Experience Research and Design. She holds a BBA in Digital Marketing and previously worked at Rocket Mortgage which has shaped her interest in understanding consumer behavior and designing to meet user needs. In her spare time she enjoys spending time with friends and family, traveling, listening to podcasts and a good meal.

Terrence Liu, MSI Student at the University of Michigan

terrliu@umich.edu

Terrence is a MSI UX Research & Design student at the University of Michigan. Terrence has a breadth of knowledge in business strategy, UX & design thinking with a depth of technical skills.

Cynthia Ding, MSI Student at the University of Michigan

dingcy@umich.edu

Cynthia is a graduate student at the University of Michigan's School of Information pursuing a Master of Science in Information specializing in UX Research and Design. She has a background in marketing and visual design. As a content designer, she is interested in exploring connections between cultures and designing messages that can effectively transcend words.

Hayley Sakwa, MPP/MBA Student at the University of Michigan
hsakwa@umich.edu

Hayley Sakwa is a first-year dual degree student in business administration and public policy. She is focused on financial inclusion, economic mobility, and sustainable development. Hayley grew up in Detroit, Michigan and attended University of Michigan as an undergraduate, studying Organizational Studies and Political Science. Prior to graduate school, she worked on building healthy, local food systems in Michigan at United Way for Southeastern Michigan and Cherry Capital Foods. She also spent a year doing community-based work exchanges in Argentina, Japan, and Israel/Palestine.