

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

Add a service charge based on a percentage of the bill to fairly compensate front and back of house workers

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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.

01:23 PM	TERMZ
	Date 06/05/20
1 CHEESE PIZZA LARGE	7.50
1 WINGS PLAIN	10.49
BLUE CHEESE	
1 NEW WAVE PLATTER	14.99
1 Covid Fee	1.07
Non Taxed	: 1.07
Taxed	: 32.98

Kiko Roll	1	\$12.95
Chopstick	1	\$0.00
Yum Zoz	1	\$0.25
Subtotal		\$13.20
Sales Tax		\$1.21
Covid 19 Surcharge		\$0.66
Grand Total		\$15.07
Amount Due:		\$15.07
15%	20%	25%
\$1.98	\$2.64	\$3.30

Dynamite Roll	1	\$5.50
Kiko Roll	1	\$12.95
How I Roll	1	\$12.95
Southern Belle Roll	1	\$11.95
Yum Zoz	(2@ \$0.25)	\$0.50
Chopstick	(2@ \$0.00)	\$0.00
Subtotal		\$43.85
Sales Tax		\$4.02
Covid 19 Surcharge		\$2.19
Grand Total		\$50.06

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 & receipts

Menus and receipts can be used as communication tools, explaining your costs and demonstrating your core values to customers

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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)

[illegible]

Step

3

Imagine radical price transparency

Customers often don't know how much their food costs to purchase, prepare, and serve. What if receipts itemized the costs of doing business?

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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?

Transparent Pricing

We publish what it costs us to make every one of our products. There are a lot of costs we can't neatly account for - like design, fittings, wear testing, rent on office and retail space - but we believe you deserve to know what goes into making the products you love.

				
MATERIALS	HARDWARE	LABOR	DUTIES	TRANSPORT
\$25.32	\$7.10	\$11.00	\$5.91	\$0.45

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.

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