

October 19, 2015 by **Benoit Gateau-Cumin**

Danny Meyer has made a resounding announcement that only a restaurateur of his level of credibility could get away with and be taken seriously for: gradually, and starting at the Michelin-starred Modern next month, all restaurants within the Union Square Hospitality Group will shun tipping. SHUN, ELIMINATE, NO MAS. Not hide it, not disguise it, not rename it, but plain e-li-mi-na-te it.

No one likes to beat a dead horse and, let's face it: the concept of restaurant tip elimination (or, rather, replacement) has been a industry subject for years.

This brings to mind the Second Amendment of restaurant goers: never mind the reasons and the cause, nobody is going to decide what I do with my money but me. "Cogito, ergo tip." You know these folks: they are still smoking a pack a day after statistics proved many times over that their habit is killing them slowly. But, see, it is their "right" to die.

Well, let me tell those diners the following: the restaurant is not saying they are setting the tip for you and forcing your hand: it is just that the restaurant has become more expensive to you (yet more predictable) because you are buying an entire "hospitality" experience, that includes clean floors, clean toilets, a great wine selection, pleasant phone reservations (and confirmation) great food and... very good service. How they break it down as a restaurateur is really none of the consumers business. What they know is: their great chicken is \$35, and sure the diner can find less expensive or more expensive chicken somewhere else: the question is: will it be as good?

Suppose the diner goes to Alain Ducasse at the Plaza-Athénée in Paris. The check comes, and it is \$300. Now the same diner goes to Le Bernardin in New York and the check is \$300. Mmmm: pretty competitive, you will say. Not so. At Ducasse all you pay is \$300, unless you wish to leave \$20 under your coffee saucer as you saw other diners do. At Le Bernardin, your \$300 check will in fact cost you \$387. To the price of food and wine, you will add sales tax (\$27) and 20% average tip (in this case \$60).

Which offers better value and which may be providing better service? You tell me. Now suppose you go back to Alain Ducasse at the Plaza-Athénée, the bill is again \$300, and you do not have small bills, therefore you do not leave that extra \$20. You got your moneys worth and the staff has been adequately paid. Flashback to Le Bernardin, where you decide NOT to leave the \$60 tip. All of a sudden, you are more in line with Ducasse's pricing in Paris but Madame Le Coze's impeccable front of the house staff has been cheated out of \$60. And it is not her place to make up for it. Are waitstaff supportive of what will now be called (in Danny Meyer's

words) “hospitality included”? Of course not, and some of them have tried it already (at Thomas Keller’s Per Se, for instance, where a gratuity is automatically added to each check) and claim it still hurts them as many regular guests are more in the 30% to 35% tipping range area.

But what Meyer is doing goes way beyond adding the service charge to the bill: he does not add it, he buries it. Sure, it may lack transparency some will say. Any restaurant (or businessperson) worth his/her salt knows the following: whether you are billing for consulting services or building pickup trucks, you have to establish potential costs that determine at what price you ought to sell your merchandise in order to generate the profit that will keep you in business. A restaurant deals with occupancy costs (rent, utilities, permits and licenses) overhead costs (marketing, advertising, management, accounting, legal) ingredient costs (food, beverage, garnish, spices) and... directly allocatable variable labor costs. You find it to a lesser extent in the kitchen (it probably won’t take more cooks to serve 90 covers than it would to serve 130) but more so in the front of the house.

Depending what level of service you use, you may require 6 servers and 2 runners to handle 90 covers, whereas you will require 10 servers and 4 runners to properly handle 130 covers.

Just like Ford may have a summer sale on pickup trucks, featuring hefty discounts, a restaurant features daily and weekly specials where the profit margin may allow for lower pricing, or use “loss leaders” to bring attention to the rest of the (more profitable) side of the menu.

What Danny Meyer is doing is basically three things:

- 1) He is paving the way for a legislation that will (sooner or later, depending on who gets elected next year) end a practice that cheats the government of over a billion in uncollected taxes on cash tips (even if, in Las Vegas, the IRS and the unions have agreed to estimate the hourly wage of a front waiter in a fine dining restaurant to be \$50 including tips – believe me, when a “whale” wins big and eats for free, tips are spectacular, and decidedly worth more than \$100 an hour.)

- 2) He is going to make your restaurant meal more expensive. There is no way around it.

- 3) He is going to inspire the restaurant industry to revise its staffing rules and manning guides: who says we will not become a bit like Denmark, where full service restaurants have almost become a rarity. But did that keep Copenhagen from becoming home to NoMa, the world’s best restaurant?

And there the issue of the living wage: but that’s a dead horse of a totally different color.