



*New York City-based Shake Shack paid a 10% premium to roughly 6,000 workers from April to Aug. 19, while other chains took similar approaches to pandemic pay.*

**OPERATIONS > WORKFORCE**

## **Compensation: Pandemic forces restaurant industry to rethink wages, tip credit**

*Despite fewer workers and less hours, labor costs are rising*

Nancy Luna | Sep 16, 2020

*This is part of our Workforce package that appeared in the 9/21 issue of Nation's Restaurant News. Read more about the new workers , labor market and diversity and inclusion here.*

As restaurants slowly return to dine-in service where they can, thousands of jobs have been restored. But how restaurants view and pay their workforce is evolving. Many chains and independent restaurants have used this time to reset when it comes to labor efficiencies and wages.

Industry watchers say the pandemic and the Black Lives Matter movement have amplified the ongoing debate about paying restaurant workers a living wage and the inequities between the front and back of house, especially in “tip credit” states.

“I do think wages will be going up whether it’s federally mandated or not. We are going to have to up the wages we pay to attract a better-quality person,” said Frank Tucker, a restaurant consultant and former global chief people officer at Taco Bell.

That trend is playing out in some states in the full-service sector, according to a late August workforce report by restaurant analytics firm Black Box Intelligence.

The average state saw an increase of 5.2% in hourly wages for line cooks in the second quarter compared to the same period last year, according to Black Box, which uses line cook wages as a key indicator because it excludes the effects of tips.

Specifically, Rhode Island, Indiana, Kansas, Michigan and Virginia experienced the largest year-over-year increases in hourly wages for full-service line cooks during the second quarter, the firm said.

“With the exception of Michigan, these increases are entirely market driven and not the result of minimum wage increase,” Black Box said.

**8 MILLION WORKERS WERE LAID OFF OR FURLOUGHED BY MID-APRIL.**

Sarah Diehl, a human resources executive and founder of Empowered Hospitality consultancy in New York, said COVID-19 is calling attention to wage inequities in

the industry.

In New York City, where an estimated 1,200 independent restaurants have permanently closed, she said she's noticing a trend where employers are rehiring fewer people but at a higher hourly wage.

"I suspect that that's going to be a lasting trend," she said.

### **Will pandemic pay last?**

Since the beginning of the pandemic-related restaurant shutdown, most foodservice jobs were considered essential — from teenagers working the drive-thru at quick-service chains, to servers-turned-sanitation-specialists at full-service concepts.

The work is risky, stressful and chaotic as daily safety procedures have been heightened tenfold to curb the spread of the highly contagious novel coronavirus.

That prompted chains like Chipotle Mexican Grill, Starbucks and Shake Shack to offer hourly workers appreciation pay to reward them for their hard work, and sheer grit during a catastrophic economic and health crisis.

New York City-based Shake Shack paid a 10% premium to roughly 6,000 workers from April to Aug. 19.

Chipotle's 10% pay boost was provided from March 16 to June 7. The Newport Beach, Calif.-based chain, which has logged record digital sales during the pandemic, also gave one-time bonuses to managers "who worked through the month of April," the company said.

"In total, we have issued \$30 million in bonuses and assistance pay to our restaurant employees so far this year," the company told Nation's Restaurant News.

Calling it Service Pay, Seattle-based Starbucks gave all hourly workers an additional \$3 per hour between March 21 and May 31.

**IN FULL-SERVICE, USING LINE COOKS AS THE KEY INDICATOR SINCE THEY EXCLUDE THE EFFECTS OF TIPS, WAGES HAVE GONE UP YOY FOR MOST STATES. THE AVERAGE STATE SAW AN INCREASE OF 5.2% IN LINE COOK HOURLY WAGE IN Q2 2020 COMPARED WITH Q1 2019.**

Source: Black Box Intelligence

While these chains have ended these so-called pandemic pay premiums, all three companies say providing good benefits ultimately makes them more competitive.

"Taking care of our teams has always been a core tenet of Shake Shack. We couldn't do this without them. Additionally, we do believe it [the pay boost] helped retain employees," Shake Shack officials told NRN.

Though Shake Shack ended the hourly premium increase in August, the company said it plans to give year-end bonuses ranging from \$250 to \$400 to all employees.

For these brands, these perks are part of each brand's culture.

Shake Shack and Starbucks say they pay employees at or above minimum wage at most of their restaurants. Chipotle says it pays hourly workers above federal minimums, and in some jurisdictions, employees are paid \$15 an hour.

Restaurant consultant Gary Stibel said brands that pay above minimum wage will reap long-term benefits, while those that "skimp" on pay will suffer when it comes to retention and service quality.

"Even before COVID-19, there was a trend going on in this country towards raising the standard of living of all Americans, not just restaurant employees," said Stibel founder and CEO of New England Consulting Group.

## **Tip credit debate intensifies**

Some chains say the pandemic is putting pressure on labor costs, especially in markets where there's a tip credit.

Texas Roadhouse said its second-quarter labor costs were higher as a percentage of total sales because "to-go" hours are increasing due to a pivot to off-premise. Even though fewer workers were working fewer hours, those workers were not earning the typical tips, so the company could not take advantage of the tip credit.

Texas is among 43 states and Washington D.C. that pay tipped employees the local minimum hourly wage for a tipped worker, which can range from \$2.13 to \$9.35 an hour.

"While we are also using fewer dining room hours now than we were last year, given most of our restaurants are operating at limited indoor capacity, this reduction in dining room hours does not offset the cost of the increase in to-go hours since many of the dining room hours servers are paid a tip wage which can be well below the minimum wage," said Tonya Robinson, the company's chief financial officer.

That trend has led operators to re-examine labor due to the pandemic.

"We've been really looking at those [to-go] transactions pretty carefully, understanding where there's some opportunities to gain efficiencies," Robinson told investors during the brand's second-quarter earnings call.

That reset is happening at the independent level, as well.

Diehl of Empowered Hospitality said she is seeing clients in New York City temporarily forgo using the tip credit because gratuities are not flowing in at the levels they used to due to restricted hours and dining capacity in the city.

Restaurant owners say giving up the tip credit levels the playing field between front and back of house, while also allowing the server to earn a consistent wage when they're called back to work at a time when dining out traffic is low.



**LIMITED-SERVICE WAGES HAVE NOT BEEN INCREASING AT THE SAME RATE. IN FACT, THE AVERAGE STATE SAW AN INCREASE OF ONLY 0.3% YOY FOR LIMITED-SERVICE SHIFT LEADERS DURING Q2 2020.**

Source: Black Box Intelligence

For some, there's another reason for this movement: ending racial inequality, says labor advocacy group One Fair Wage.

The organization, which supports ending the tip credit, released a report this summer that examines how the tipped wage perpetuates racial and gender inequality in New York as measured by government data and interviews with restaurant workers during the COVID-19 pandemic.

The report concluded that the subminimum wage for tipped workers resulted in a nearly \$5 per hour differential in wages (including tips) between Black women and white men among tipped workers nationally.

With tips down at least 50%, this gap is impacting “workers of color and women of color” more during the pandemic, the report states.

Claire Sprouse, owner of Hunky Dory in Brooklyn, said she reopened her all-day café during the pandemic without taking a tip credit to address the inequities that exist between the front-of-house and back-of-house pay structures.

“We pay our staff above minimum wage, and everybody's paid the same,” she said. “We're fully committed. This is our model.”

She hopes this becomes a standard operating move for the industry.

### **A question of equity**

If jurisdictions move to end the tip credit, they'll likely face opposition from groups like Restaurant Workers of America.

“Our mission is to preserve the tip wage system to preserve the tip credit, and to fight for the livelihoods of tipped workers,” said Joshua Chaisson, vice president of the Maine-based organization.

Chaisson, who has worked as a server and bartender for 20 years, maintains that eliminating the tip credit leads to the reduction, if not, elimination of tipped positions.

In non-tip-credit states like California there’s a growing number of fast-casual or “counter-service” restaurants, he said.

These models eliminate “the need for our positions entirely,” he said.

Texas restaurant owner Adam Orman said business models must change to benefit all restaurant workers, but not in the way Chaisson suggests.

“You have to adapt a different model that spreads the money out so that everybody is making a living wage, but also so that nobody is making \$2.13 an hour,” said Orman, co-owner of L'Oca d'Oro in Austin, Texas.

He is part of Good Work Austin, a network of employers who work together to bring change to the industry by advocating sustainability practices and paying a fair wage to all workers.

“You cannot let all of the gratuity stay with the servers and sacrifice the folks in the kitchen,” he said.

Though Texas allows a tip credit, Orman budgeted his labor without taking advantage of the payroll perk five years ago when he opened his casual Italian dining restaurant.

*Adam Orman, co-owner of L'Oca d'Oro and part of Good Work Austin.*

To make up for the thousands of dollars he could be making by paying servers a lower tipped wage, he makes sacrifices elsewhere. He doesn’t pay for external marketing or social media services, for example.



“There's a lot of places where we save money, because the employee benefits are more important,” he said.

Orman said it's challenging when trying to convince operators to give up the credit, which can range between \$18,000 and \$25,000 for a restaurant with yearly sales of \$1.5 million to \$3 million.

“What about the \$20,000 tip credit that I get every year?” restaurant owners ask him.

While there's no good answer, he said conversations about wage equity have

heightened since the Black Lives Matter movement was ignited after the killing of George Floyd by police officers.

He's hopeful the industry is ripe for change.

“We've just been getting so much more interest nationally,” Orman said. “Folks are talking about ways to create more justice in their restaurants and more equity and more diversity and the first step is always committing to wage equity.”

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