

https://lancasteronline.com/business/local_business/heres-what-happened-when-a-few-lancaster-county-restaurants-tried-adding-service-charges/article_f8c30d0c-023c-11ef-ac54-d7bf902c69e3.html

Here's what happened when a few Lancaster County restaurants tried adding service charges



LISA SCHEID | Business Trends Reporter

Apr 28, 2024



1 of 7



Gracie Volker of Gracie's on West Main, speaks about how they have implemented Project 32 on Thursday, March 21, 2024. Mostly everything on their menu now ends in .32 cents. Project 32 will allow the owners to help their employees over 18 years of age to start a 401K, have paid time off and have some form of health benefits with this added price to the menu items.

SUZETTE WENGER | Staff Photographer

Welcome back! Thank you, for being a subscriber and supporting local journalism.

Guests will sometimes wait for an hour at Gracie's on West Main in Upper Leacock Township just because they specifically want to be served by Deanna Coker. With a dedicated following of 30 or so regulars, she is, in the words of her bosses, a professional.

Yet, until recently, in a decade of working full-time as a restaurant server Coker never got a paid day off or had health insurance. Most restaurant employees don't.

When Gracie's on West Main added a service fee, it boosted worker pay and added some benefits. Coker still relies on tips, but she has paid days off, money towards health care and a retirement savings plan to which the restaurant contributes.

The fees, also known as living wage fees, back-of-house fees or gratuities, are not common in the restaurant industry, but more places are trying them to attract and keep good employees, grapple with changing rules and help workers struggling with inflation. However, in some cases, customers have resisted or questioned the charges, leading restaurants to rethink their approach.

According to National Restaurant Association research, only about 16% of restaurants use any kind of surcharge/fee. About 54% of full-service restaurants add a service charge or automatic gratuity to a bill. Of that group, 88% of them are adding it for only large parties (typically of six or more people), according to Vanessa Sink, senior director of media relations for the National Restaurant Association.

Local restaurant owners said service fees are more common in larger cities. Those who have tried to add service fees say they help simplify a complicated mix of common practices, minimum wage laws and rules governing tipped wages.

Restaurant workers can be paid as little as \$2.83 an hour in Pennsylvania. If an employee's tips don't add up to the state minimum of \$7.25 an hour, the employer must make up the difference. Some restaurants pool tips so workers like food runners, bar backs and line cooks get a small share.

5 things to know about credit card fees

Have you seen more credit card fee charges on your restaurant bill? Here are five things to know about credit card fees

1. Credit card companies typically charge a business a processing fee between 1.5% to 3.5% of each transaction's total.
2. Not all companies charge businesses the same amount. The fee is different depending on card type, whether the transaction was made in-person or online, and the volume of the business.
3. The National Restaurant Association says processing credit card transactions is one of the largest operating expenses for restaurants.
4. The points and money back you get for using your card are subsidized by fees charged to businesses.
5. In March, Visa and Mastercard announced a major settlement with U.S. merchants, potentially ending nearly two decades of litigation over the fees charged every time a credit or debit card is used in a store or restaurant. The deal would lower and cap fees and let small businesses collectively bargain for rates with the payment processors the way larger merchants already do. The lowered fees would be only for a limited period of time — three to five years — after which the fees would return to their current levels.

READ: [Wage growth for restaurant workers in Lancaster County has cooled down](#)

What happened at Gracie's

"I definitely see an increase in my paychecks every week, which is definitely helpful," said Coker, 29, of Lebanon. "But the thing that's helped me the most is the health savings account. That's honestly been very helpful as somebody who pays for my own medical bills and everything else out of pocket. It's really helpful to get that from an employer. I've never gotten anything like that from an employer. I've never gotten paid time off. I've never gotten anything to go towards my medical. Nothing, so the benefits definitely have helped me."

While the fee and wage changes generally made life better for Coker and her fellow servers, cooks and support staff, it raised questions from customers, said owners Gracie Volker and her partner, Jim Rutolo.

Coker said it was a challenge to explain the service fee to customers even though it was noted on their checks and described on the menu.

"Honestly, it's just when you explain something to somebody and they don't agree with it," she said. "It's not that they don't feel it's necessary; they're just not sure why they are being charged. (We were) really transparent about it and, honestly, it helped me. It helps everybody who works here. It goes to the same pool."

Customers asked if the fee was in lieu of a tip (it was not), a few balked at paying for benefits for restaurant staff assuming incorrectly that most were just part-timers picking up a few extra bucks. Not all customers were against the fee. One memorable older regular happily supported the fee when she learned how her 65 cents extra made a

difference in a server's health care, Volker said.

Last month, in response to customers, Gracie's dropped the service fee and implemented price increases dubbed "Project 32" because now most items end in 32 cents. The price increase is explained on the menu as a way to provide benefits and pay staff fairly.

Coker said she hoped the switch would clear up confusion.

Other restaurants with service fees



Owner and head chef of Luca, Taylor Mason plates Cipolline Catanesi after it was removed from the brick oven during an event highlighting Chef Katie Parla in celebration of her new cookbook called "Food of the Italian Islands" on Sunday, Aug. 27, 2023. Chefs Jake Powers, left, and Nathan Flaim, center, are also pictured.

SUZETTE WENGER | Staff Photographer

For more than two years, Luca, a trendy nationally acclaimed Italian restaurant in Lancaster city, has tucked a disclaimer on its menu that it has adopted the "Living Wage" initiative to "bring equality to kitchen staff wages."

"In lieu of increasing all menu prices, a service charge of 3% will be applied to all food purchases to be distributed directly to our Back of House employees," the menu says.

Back-of-the-house staff includes cooks, dishwashers, food prep workers and others who work behind the scenes.

Another city restaurant, Shot & Bottle, has added what it calls a 2% gratuity that is distributed directly to its back-of-house staff.

Although Passerine, a city restaurant that showcases regional producers, started out in 2023 with a 20% automatic service fee and a business model that did not rely on tipping, the company decided to discontinue that policy at the beginning of 2024, co-founder Kyle Sollenberger said.

Complaints from customers weren't the problem, Sollenberger said, but he learned that the service charge was keeping potential patrons from coming in.

"We were hearing that it was a point of friction," Sollenberger said. "We want to eliminate points of friction and make it as easy as possible for people to come in. We want people in the doors. We want to be busy."

Changes at the beginning of year for the staff of 13 full- and part-timers included increased base pay for back of house employees, reduced base for front-of-house staff, who get pooled tips.

Front-of-the-house includes servers, hosts, food runners, bartenders and support staff.

"It's an interesting model," Sollenberger said of the service fee. "I still think something needs to change in the way tipping goes in the area."

READ: [Here's how Nissin Foods is growing its noodle business](#)



Exterior shot of the building at Passerine Bar/Restaurant in Lancaster on Monday, April 3, 2023.

ANDY BLACKBURN | Staff photographer

New rules and messy business models

The state rolled [out new rules on tipped wages in August 2022](#) that limited using pooled tips to only pay workers who "customarily receive tips," which could be interpreted as banning back-of-house employees from tip pools. The state also said that if all employees were paid the minimum wage or higher, then the restaurant could pool tips for all workers.

The laws governing tipped workers had not changed since 1977. The new 2022 rules also ban deducting credit card fees from employee tips.

The new rules came at a time the hospitality industry was trying to recover from pandemic shutdowns, the loss of many of its experienced workers and amid a push for better treatment by those in the business.

The average profit margin of successful restaurants is about 4.5%, Rutolo said. But many restaurants aren't that successful. According to a recent National Restaurant Association report, 38% of operators say their restaurants were not profitable last year. Operators say there is more competition, and higher labor and food costs. And the National Restaurant Association points out that the industry is made up of small businesses. More than 9 in 10 restaurants have less than 50 employees and more than 7 in 10 operators operate only a single restaurant.

"There is not common knowledge or awareness of how challenging restaurant economics are and so the public generally has a threshold for perceived value," said Taylor Mason, Luca's owner. "For some reason, this doesn't necessarily exist across all retail plains ... iPhones go up, clothing prices go up, health care, etc., etc., etc. and we just move onwards. As soon as a dish costs a bit more, restaurants often hear about it, unfortunately. "

Mason said the 3% living wage fee has helped in retaining quality cooks and employees and built a better back of house culture.

"When the restaurant is busy, they (back-of-house staff) benefit from the busier nights; they don't just have to trudge through them," Mason said. "This is a daily benefit they receive and see added to their paychecks. If we have had a very busy week and everyone has to dig in, it's reflected in their paychecks."

He said the fee boosted hourly wage by \$1.50 to \$2 an hour for back-of-house employees.

Mason said the restaurant implemented the fee a few years ago because raising prices does not necessarily directly benefit the staff.

READ: [Here's what a Warwick Township company is doing with all its empty office space](#)

Caught between social expectations and laws



Andrew Martin, owner of Thistle Finch Distillery, talks about the distillery's turn to making disinfectant on Wednesday, March 25, 2020. Following the coronavirus outbreak in the state and the Governor's orders to shutdown, Martin decided to begin making surface disinfectant from the excess of waste product from distilling alcohol.

TY LOHR | Digital Staff

Andrew Martin, owner of Shot & Bottle, said the restaurant had a back-of-house gratuity in 2018 and dropped it for a while and then added it back again in 2020. The 2% gratuity is distributed directly to back-of-house staff. All told, the restaurant has about 30 employees.

Caught between social expectations and the legal framework for the industry, Martin said the fee was a small way to address the inequality of pay between the front and back of the house.

Martin said he has a massive spreadsheet accessible to staff so they can see how tips and fees are distributed. He said staff asked for weekly pooling so that their tips are pooled with people they worked on a shift with.

Rutolo said that in the last 20 years or so he's noticed a sentiment that he said has permeated society that service work is not valued. If the fees and price increase would help the work of people like Deanna and his back-of-house staff be valued, he would be glad.

Volker said it was important for customers to know that Project 32 wasn't about more money in her pockets.



Gracie Volker of Gracie's on West Main, speaks about how they have implemented Project 32 on Thursday, March 21, 2024. Mostly everything on their menu now ends in .32 cents. Project 32 will allow the owners to help their employees over 18 years of age to start a 401K, have paid time off and have some form of health benefits with this added price to the menu items.

SUZETTE WENGER | Staff Photographer

"Because before we were business owners, we were employees and we know what it's like to be on the other side of that," she said.

As for Coker, she said she loves her job, which she prefers over her stint as a forklift driver.

"I really do enjoy what I do," she said. "I like doing it here. I think this area is really, really nice. We have a really good clientele. We have a lot of regulars here, which I'm grateful for. We get a lot of travelers too, but it really is one of those hidden gem things that a lot of people do keep coming back to us and you can build relationships with your customers. And I think that that's a really beautiful thing."



[Local Business](#)

Here's a look at why unemployment in Lancaster County has been under 3% for 7 months

[Local Business](#)



Lancaster County consumer optimism reaches a record high in March



Local Business

Lancaster County home prices near record high in March; median price hits \$325K



Here's how Nissin Foods is growing its noodle business [video]



Here's what a Warwick Township company is doing with all its empty office space



New owners reopen The Pretzel Hut roadside restaurant, petting zoo near Brickerville



Central Market Trust hires new executive director to oversee downtown Lancaster market



Leadership Lancaster names Jennifer Diaz as new executive director

5 things to understand about credit card fees at restaurants



PUC redirects \$1 million penalty against PPL Electric to hardship fund



Armstrong World Industries has best first quarter, acquires Utah company for \$95M



PPL Electric Utilities plans 9% decrease on June 1



Lancaster hot dog maker in acquisition talks: Top 5 most-read stories April 29 - May 5 [ICYMI]

More information



Report: Wage growth for restaurant workers in Lancaster County has cooled down

[