



THE STATE OF RISING MINIMUM WAGE FOR RESTAURANTS



Introduction

As a restaurant owner, you understand the value of people. Your people are the heart and soul of your business.



But great people can sometimes come at a great cost. For most restaurants, **labor takes up about 30% of their annual expenses**. And as much as you'd love to pay your staff more than minimum wage, that's sometimes just not possible when you're operating at a 4% profit margin.

In 2018, the restaurant industry in some parts of the U.S. took a hit: minimum wage increases took effect in major states like New York and California, along with 16 other states and several cities. The minimum wage movement has picked up speed and will continue to cascade throughout other parts of the U.S. in 2018 and beyond.

So we put together this report to determine exactly how minimum wage increases will affect restaurants – and how they’re dealing with it. In this report, you’ll learn:

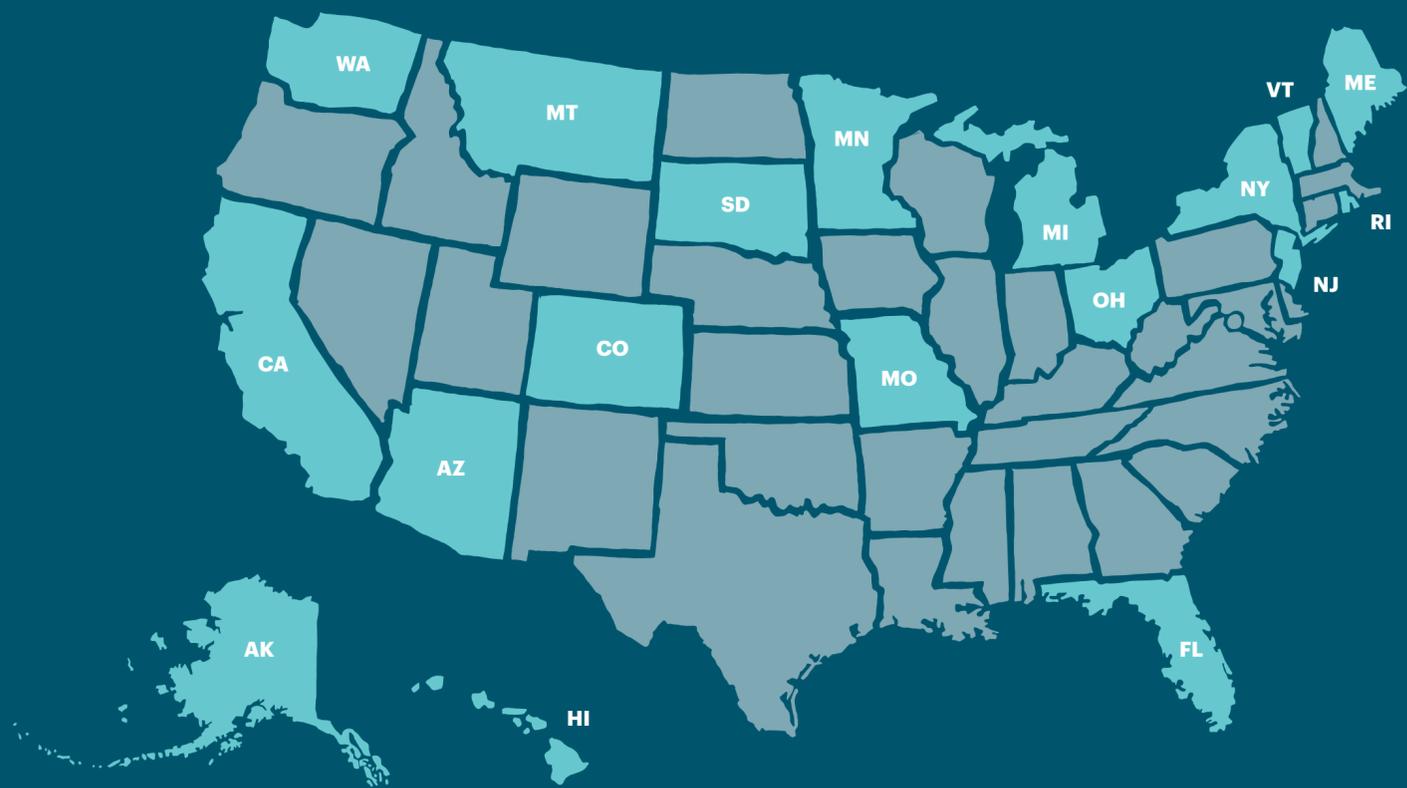
- 01** How much of an increase in labor costs restaurants are seeing so far
- 02** How restaurants are curbing the effects of minimum wage on their business
- 03** How the minimum wage increase is affecting employees

By the end of this report, you’ll feel better informed on what you can expect for your own restaurant and how you can take action to prevent the kind of profit loss that would threaten your business.

In the United States, the federal minimum hourly wage of \$7.25 has remained unchanged since 2009. But **hourly wages in cities and states continue to rise.**

On January 1, 2018, 18 states in the U.S. increased their hourly minimum wage.





HERE'S WHERE MINIMUM WAGE HAS RISEN, BY STATE:

ALASKA

\$9.84/hour

ARIZONA

\$10.50/hour

CALIFORNIA

\$11.00/hour (businesses with 26+ employees);
\$10.50/hour (businesses with <25 employees)

COLORADO

\$10.20/hour

FLORIDA

\$8.25/hour

HAWAII

\$10.10/hour

MAINE

\$10.00/hour

MICHIGAN

\$9.25/hour

MISSOURI

\$7.85/hour

MINNESOTA

\$9.65 (businesses with \$500,000+ annual revenue);
\$7.87 (businesses with <\$500,000 annual revenue)

MONTANA

\$8.30/hour

NEW JERSEY

\$8.60/hour

NEW YORK

\$10.40/hour
\$11.75/hour (fast food)

OHIO

\$8.30/hour

RHODE ISLAND

\$10.10/hour

SOUTH DAKOTA

\$8.85/hour

VERMONT

\$10.50/hour

WASHINGTON

\$11.50/hour

...and more increases are scheduled for later in 2018 for other states.

As a restaurant owner, labor is one of your most substantial expenses. Rising wages will lead to an increase in these costs, which will cause shrinking profits in the short term. And the more staff you have, the more pain you'll feel.

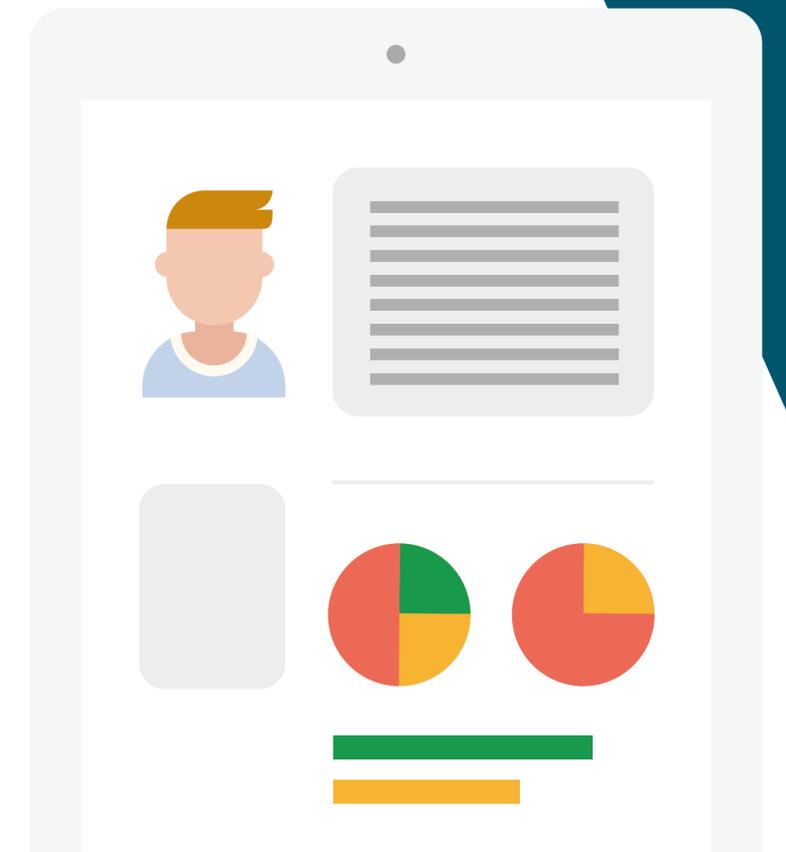
Beyond government-legislated increases in labor costs, you may also need to increase wages for your entire team so that you can maintain a fair pay gap between more experienced staff and your staff that are making minimum wage.

You'll also need to adjust payroll for higher contributions to workers' compensation and liability insurance.

So the impact is clear: rising minimum wage will require you to take a breath, strategize, and adapt.

That's why we put together this research report – **to uncover the true effects of increasing minimum wage on restaurants.** We also surveyed restaurant staff who are on the receiving end of these staffing changes, so you're better informed of their experiences before you make changes to your own operations.

We hope you find insight, solutions ... and a little bit of hope.



At TouchBistro, we're committed to helping thousands of restaurateurs across the world run better businesses.

Our products, services, and resources exist to enable, educate, and nurture restaurateurs and the businesses they hold dear.

We know that expensive labor costs are top of mind for every restaurant owner. Restaurants operate within slim profit margins as it is – so rising minimum wage can be potentially detrimental to small businesses that are just trying to make it through to the next month.

We're here to help. Read more to find out about the state of rising minimum wage in the United States, and how people just like you are dealing with the change.



Research Goals

We surveyed 100 restaurant owners and 100 restaurant staff to:

01

Determine the true impact of rising minimum wage on restaurants in the United States

02

Find out how restaurant owners are coping with rising minimum wage

03

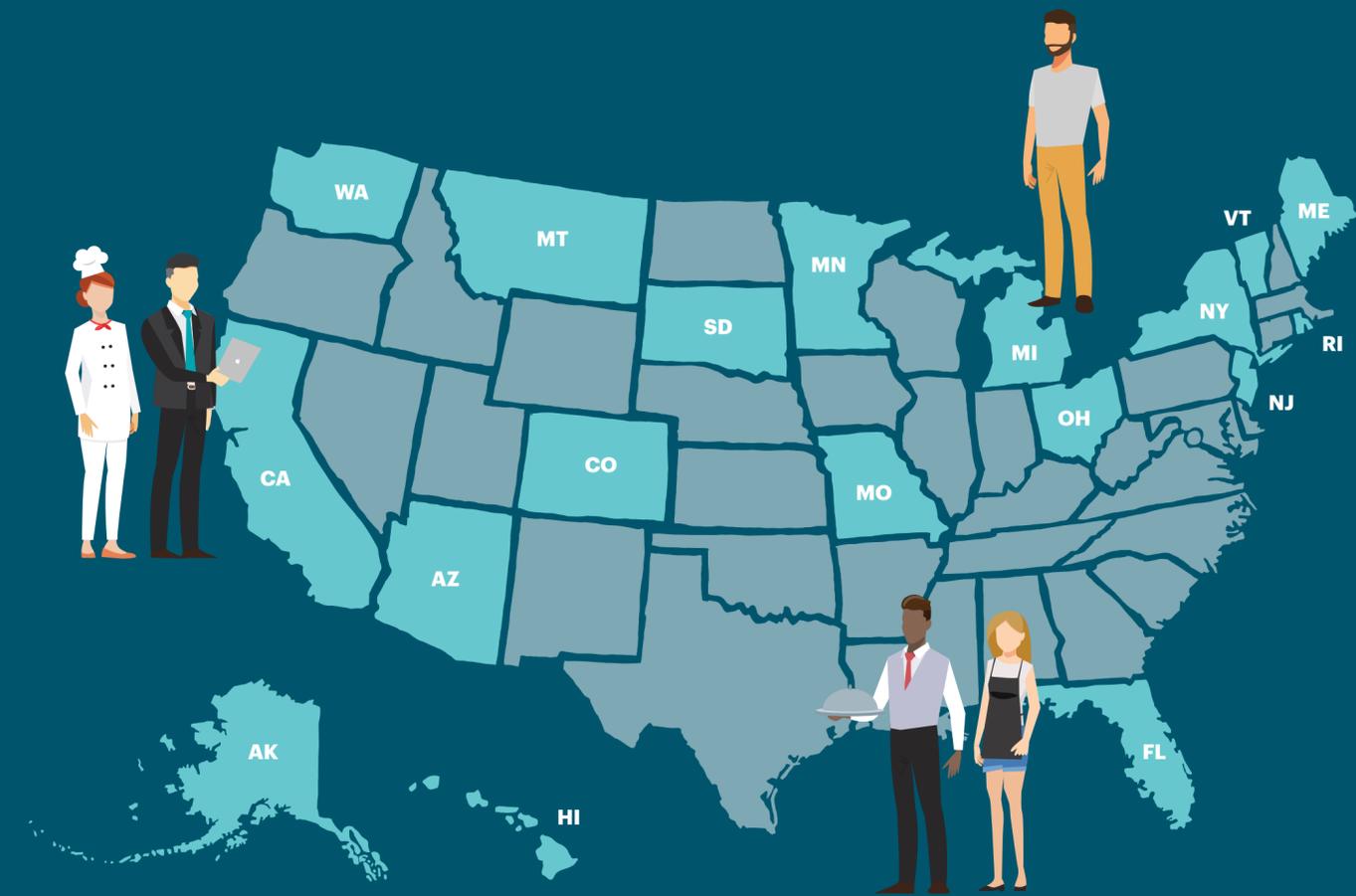
Uncover how rising minimum wage has affected restaurant employees

“I adapted, and it’s one of the best things I ever did.”

– **Chef Nelson German**, *Alamar*

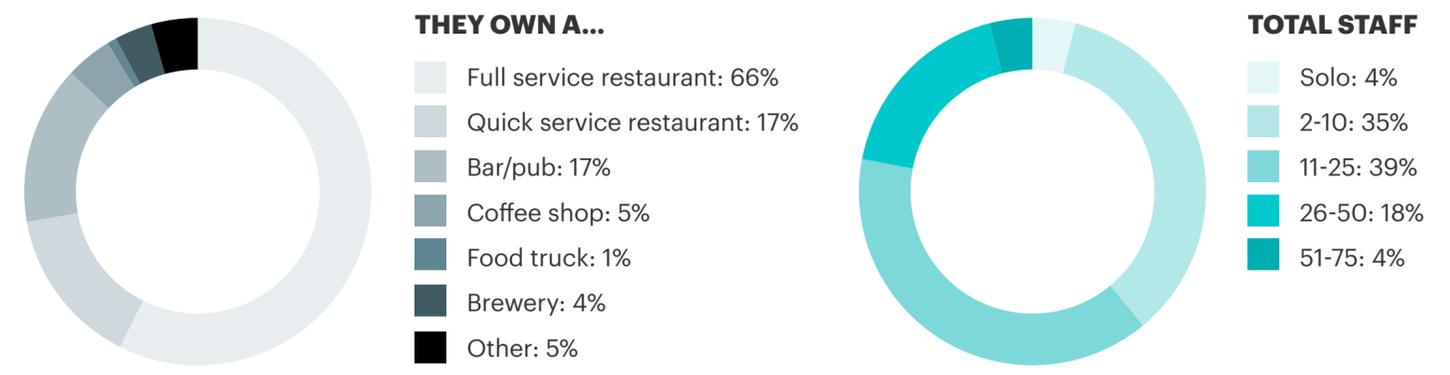
<https://www.eater.com/2018/1/23/16917388/minimum-wage-restaurant-challenges>

Respondent Profile

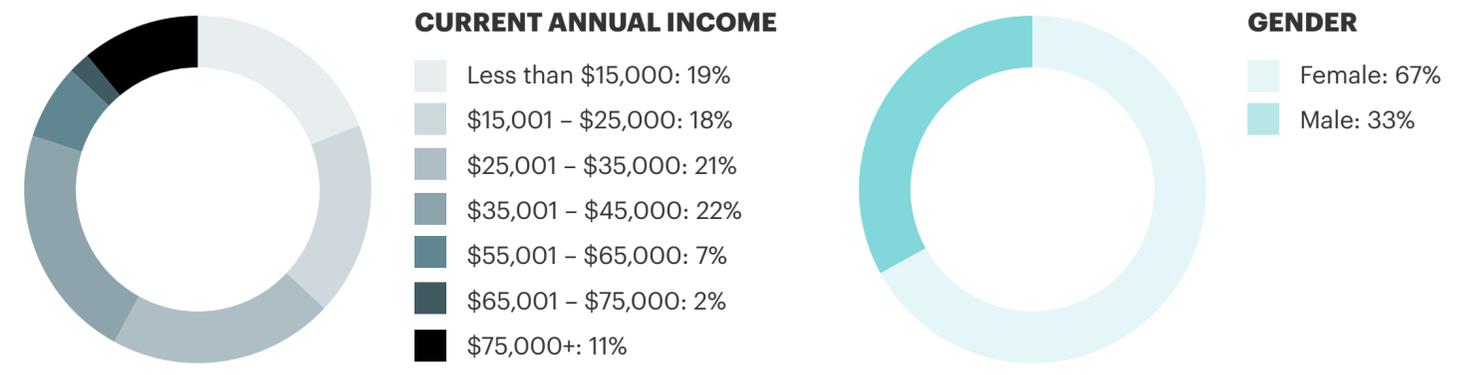


All survey participants live in one of the following 18 states that saw a rise in minimum wage in January 2018: Alaska, Arizona, California, Colorado, Florida, Hawaii, Maine, Michigan, Minnesota, Missouri, Montana, New Jersey, New York, Ohio, Rhode Island, South Dakota, Vermont, and Washington.

Restaurant Owners



Restaurant Staff



Chapter 01.

RESTAURANT OWNERS ANSWER

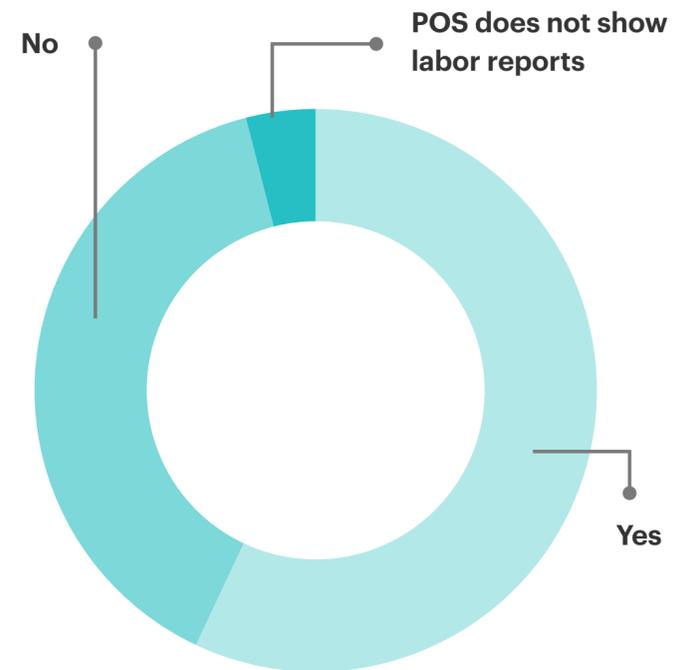
"There's such a fine line in the restaurant industry with margins that something like this could take away your profits. There's two ways to fight this: Raise prices or cut hours."

– **Adam Allison**, *Handlebar Diner*

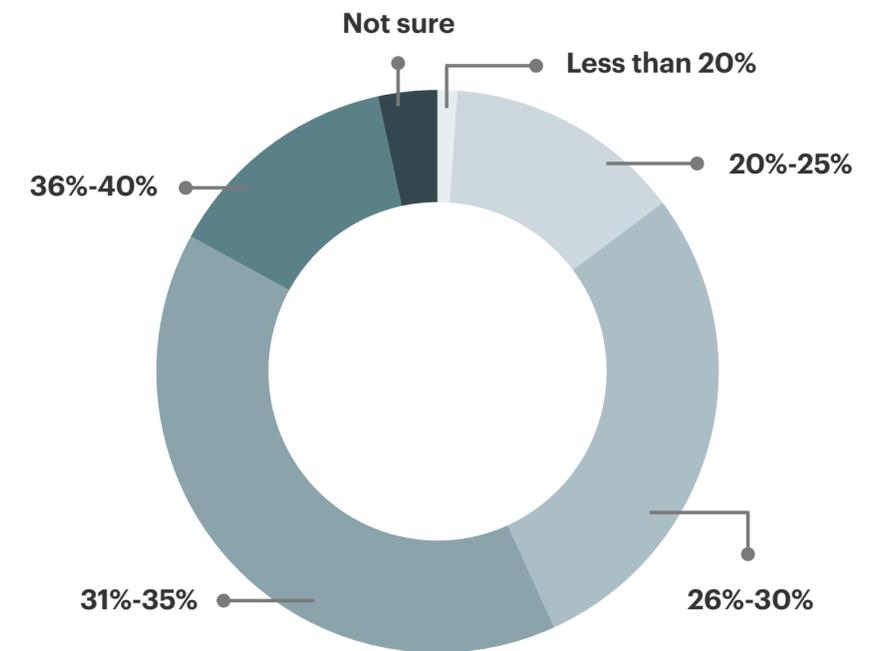
<http://www.phoenixnewtimes.com/restaurants/arizona-minimum-wage-impact-restaurants-eateries-supply-chain-10005392>



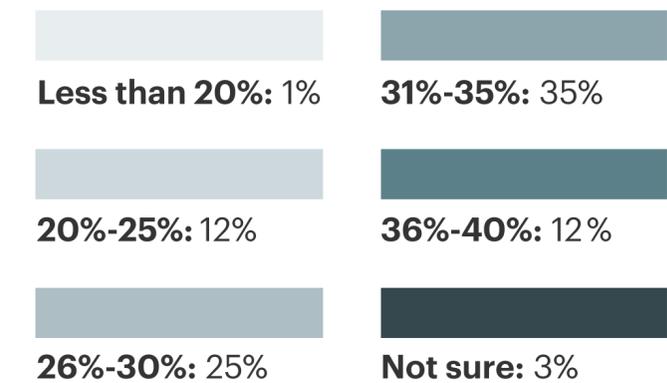
Labor Management Baseline



OWNERS WHO USE THEIR POS TO CHECK LABOR REPORTS...



THEIR CURRENT LABOR COST RATIO IS...



The Ultimate Cost of Rising Minimum Wage

EXPECTED 2018 RESTAURANT LABOR COST INCREASE



For restaurants anticipating a \$1,000–\$10,000 raise in labor costs:

- 01 45% say their profits haven't shrunk
- 02 81% have not reduced staff
- 03 61% have not raised menu prices

THE SILVER LINING: Restaurants **can** take a *small* hit.

Great news, right?



Overall, **77% of restaurants have** seen shrinking profits because of the minimum wage increase.



The Great Profit Shrink



FAST FACTS ABOUT PROFIT SHRINKAGE



Profits are shrinking ***the most*** in California.



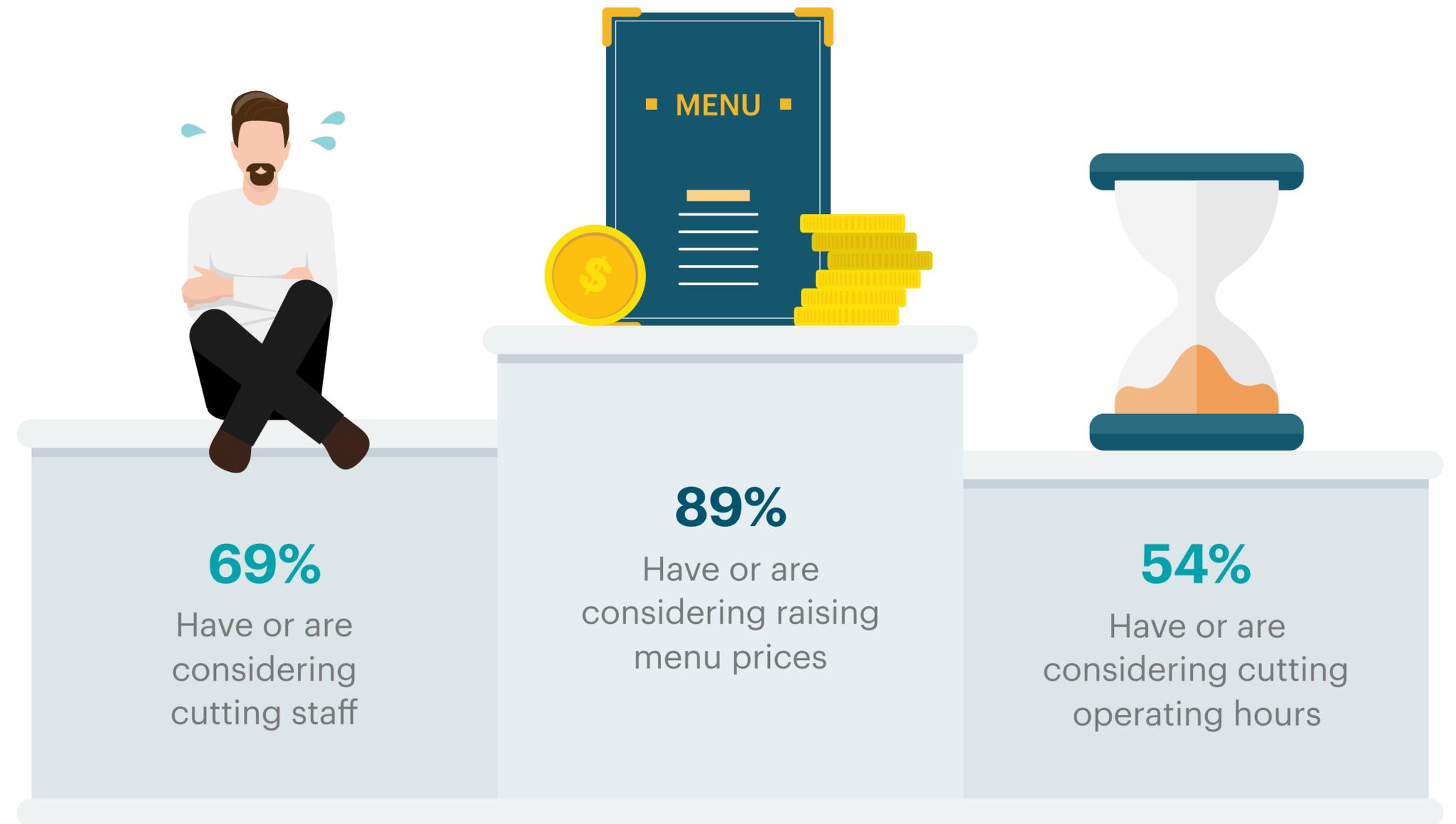
Profits are shrinking ***the least*** for bars and coffee shops.



Profits are shrinking ***more*** for restaurants that have a labor ratio of 31%–35%.

How Restaurants Are Coping

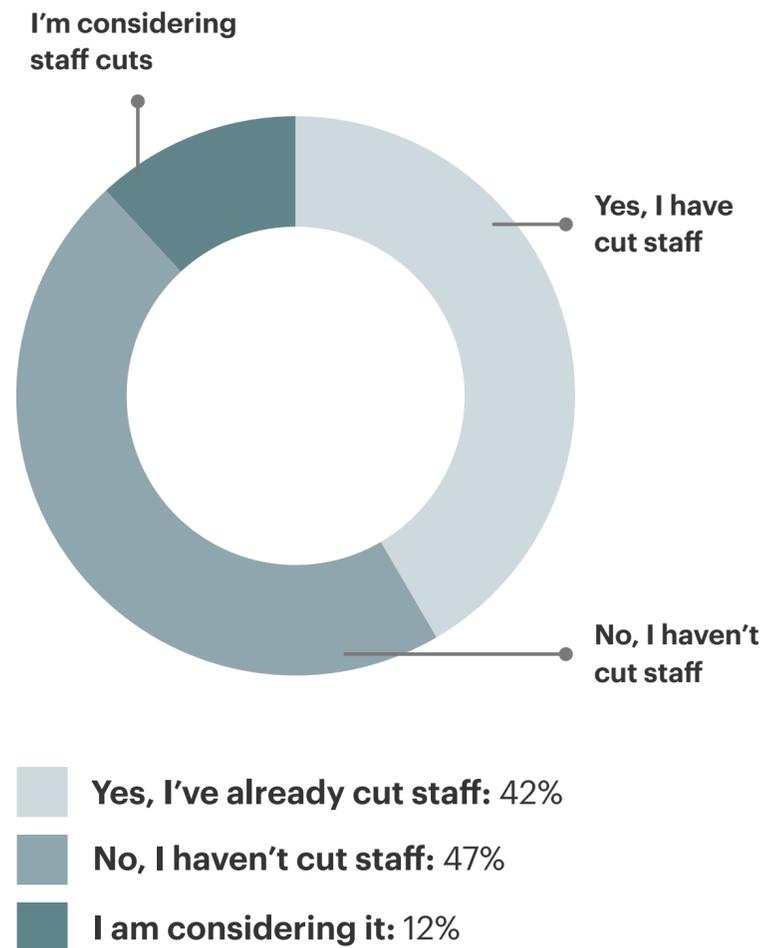
OWNER BEHAVIOR IF PROFITS ARE SHRINKING



Snipping Staff

Are restaurants cutting staff to deal with rising minimum wage?

THE STATUS ON CUTTING RESTAURANT STAFF



...BUT WHEN SOMEONE DOES CUT STAFF, THEY DO EVEN MORE

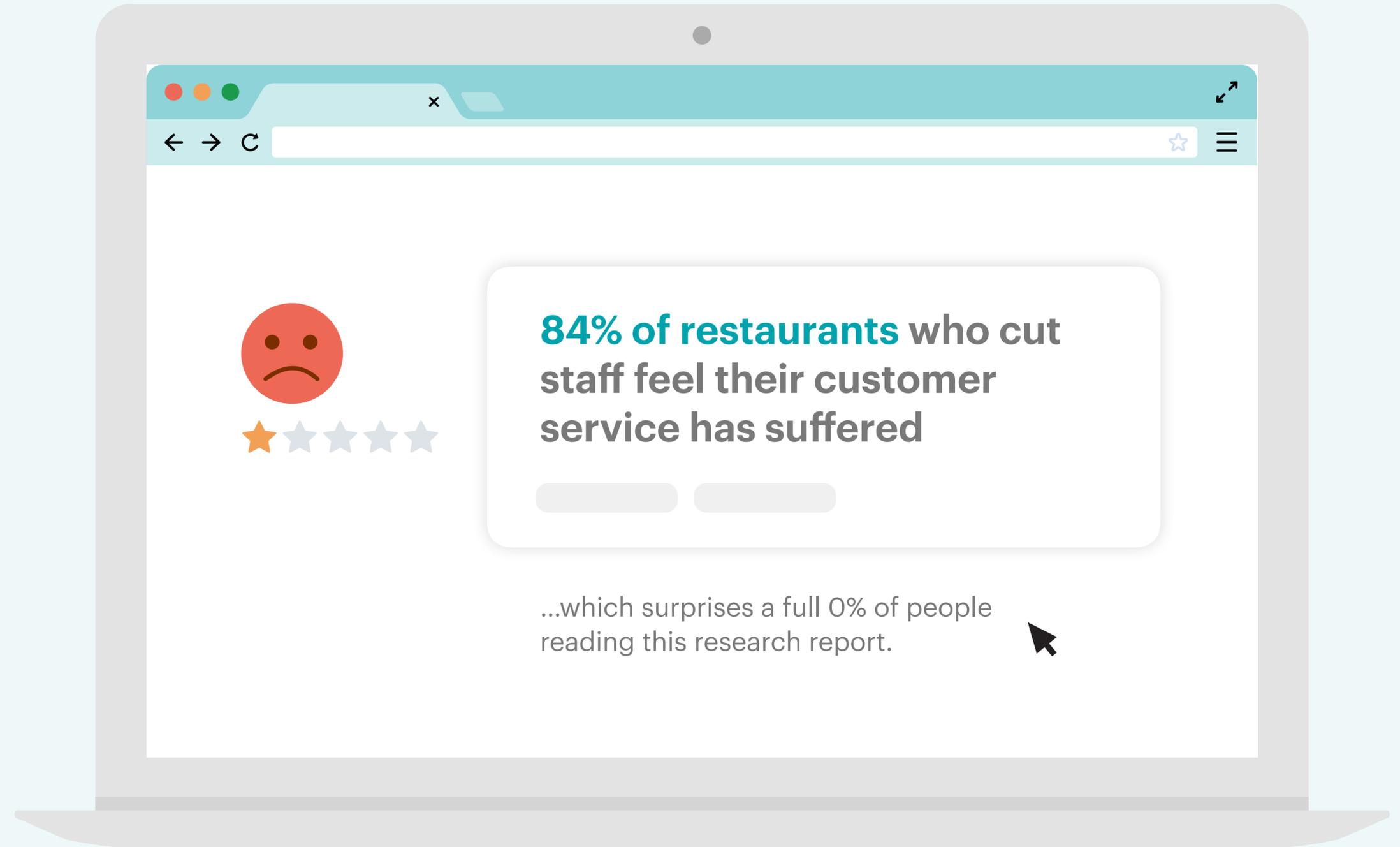


56%
also cut their
operating hours



72%
also raised
menu prices

The Customer Service Struggle Is Real



Raising Prices



80%

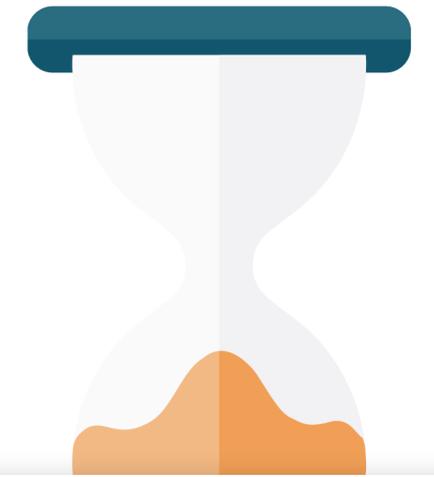
of restaurants have or are considering raising menu prices



If you've raised prices, you're more likely to have reduced staff:

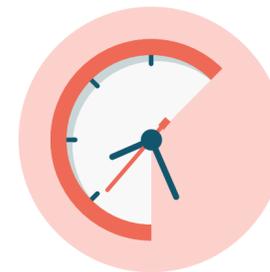
66% of restaurant owners who reduced staff said they also raised menu prices or are considering it

Cutting Hours



53%

of restaurants have not cut operating hours



47%

...but a lot have or are considering it

How Restaurant Tech Can Help

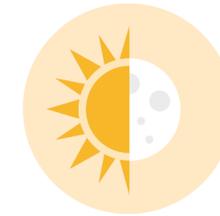
Our research results show that a lot of restaurant owners (39%) are not using their POS to view labor reports. Restaurateurs who don't use data to make scheduling decisions are missing out on some efficiencies that could save them significant costs.



YOUR POS CAN AND SHOULD BE YOUR MONEY-SAVING HUB. RESTAURANT OWNERS ARE ABLE TO SAVE ON SOME COSTS IMMEDIATELY ONCE THEY KNOW:



How many staff are working during slow hours



How many staff are working at the beginning and end of service



How many staff *were* working during holidays or events

HERE'S WHAT YOU CAN DO USING A MODERN POS:

Cut staff during slow periods.

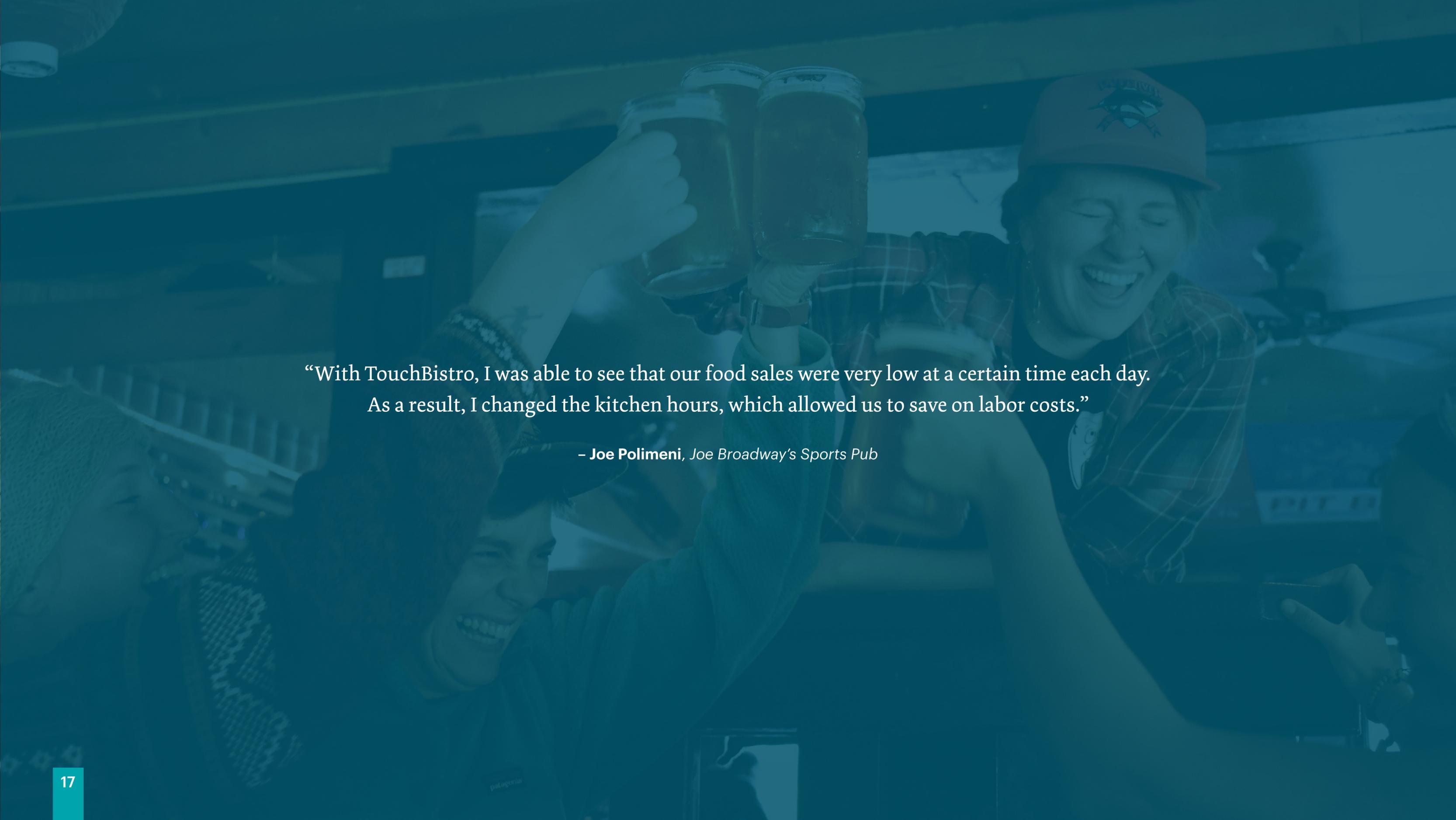
Depending on how involved you are in staff scheduling, your manager may be scheduling too many employees during slow times – and you may not even know it. Review your labor reports on your POS to gain some visibility into when staff are being cut, so you can correct your manager if you need to.

Save in small ways that build up over time.

Cut back on the number of staff you schedule at 5:00 pm, when everyone is just starting dinner and only ordering drinks. Scheduling the bulk of your dinner staff just an hour later can save on labor costs in the long run.

Check your labor reports from last year.

Check against seasons, holidays, times of days, etc. to make sure you schedule the exact amount of staff when you need them – and not when you don't. You may have overprojected your staffing needs during last year's Super Bowl event, and your labor report from that time can remind you not to schedule as many bartenders this year.



“With TouchBistro, I was able to see that our food sales were very low at a certain time each day. As a result, I changed the kitchen hours, which allowed us to save on labor costs.”

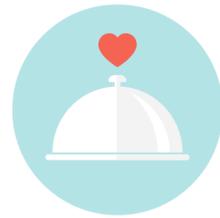
– **Joe Polimeni**, *Joe Broadway’s Sports Pub*

Opportunity: Menu Engineering

Smart pricing strategies.

While knee-jerk price increases aren't a great idea, restaurant owners can raise prices mindfully with the right approach.

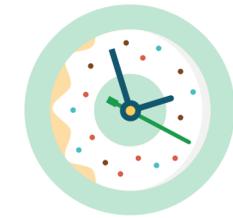
Restaurant owners should be planning price increases according to their POS sales data by analyzing:



Which items
sell best



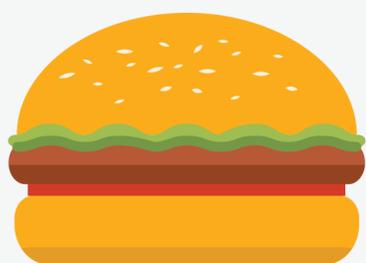
Their most popular
menu modifiers



Which items sell
best during certain
times of the day

When restaurateurs analyze sales data alongside the cost of inventory, they can increase prices of high-volume, high-margin items only. Coffees and sodas, for instance, sell at a higher volume and at a higher margin, but the rise in price will also put less of a burden on customers' pockets.

Tier pricing is also a great option. Tier pricing lets restaurants charge customers different prices for different options. For example, there are customers who order their meals to go and others who want a sit down dining experience. With tier pricing, restaurants would charge to-go customers less and give them smaller portion sizes.



Opportunity: Menu Engineering

Perfect menu design with psychology.

Restaurants should always place high-margin items where they're the most visible to the customer. But where exactly is the best place to put them?

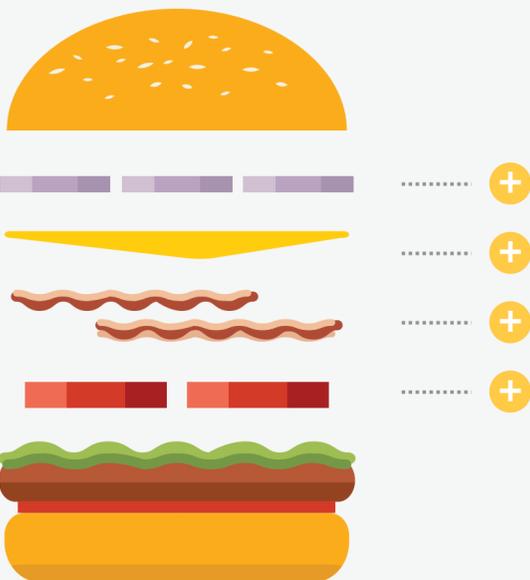


According to Aaron Allen – a global restaurant consultant and expert on the psychology of menu design – **when we look at a menu our eyes go to the middle first, then the top right, and finally the top left.** This is known as the Golden Triangle, and restaurants should place meals with the highest profit margin there.

The psychology of design also includes choice of color, storytelling, the use of nostalgia, clever descriptions, decoy dishes, and the number of options.

Decoy dishes are expensive items placed at the top of menus so diners perceive other items as better value for money.

As for number of options, conventional wisdom suggests that more choice is better – but this isn't always true. Too much choice can cause stress and lead to customers not making a decision at all. That's why smart restaurateurs limit choices by offering only seven dishes in each section, so diners feel in control.



Chapter 02.

RESTAURANT STAFF ANSWER

"These big raises offer hope for workers – and are inspiring more states and cities to push for big raises for workers at the bottom."

– **Christine Owens** Executive Director, *National Employment Law Project*

<https://www.refinery29.com/2018/01/185885/states-raising-minimum-wage-2018>



People Aren't Getting Fired... Yet



80%

of restaurant staff say no one has been let go as a result of the minimum wage increase.



88%

of these people also say they haven't seen a reduction in hours...



84%

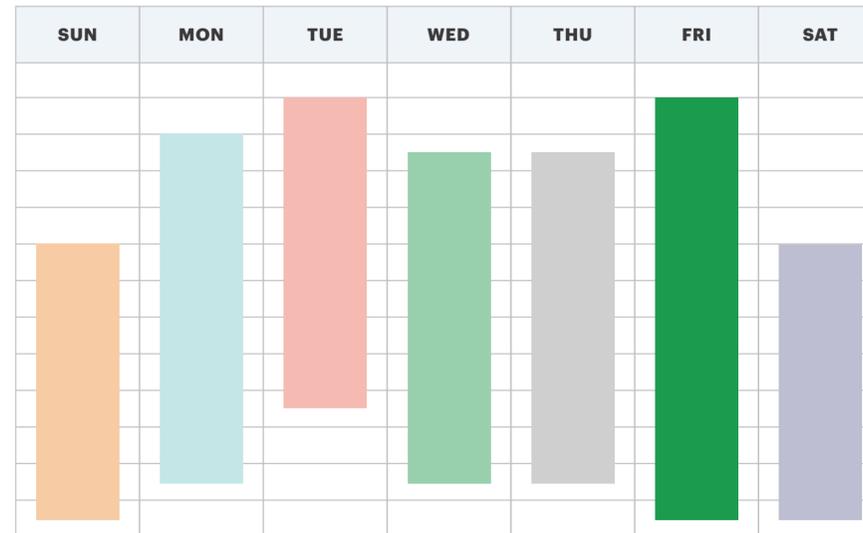
of these people have also raised prices



Werk, Werk, Werk

67% of employees feel overworked if their restaurant has cut staff

...but we really want to know who *doesn't* feel overworked in the restaurant industry?!



High Hopes



80%

of employees say they feel their job is still secure despite the minimum wage increase



People who make **\$35,000+ per year** feel even more confident:

90% said they feel their job is secure.

Higher Prices, Higher Tips?

...not necessarily.



31%

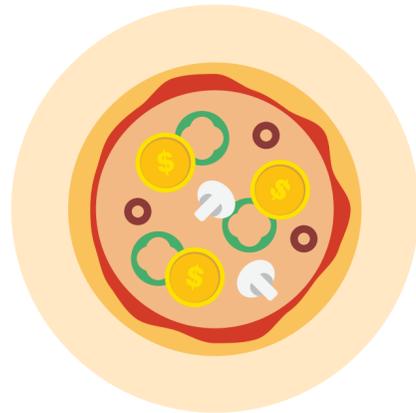
of staff have seen an increase in tips if their restaurant has raised menu prices



17%

have actually seen a decrease

The Price Rise Trend Continues



66% of restaurant employees work at a restaurant where menu prices have risen or will soon.



But there's an uglier side...

If the restaurant has raised menu prices, **30% of those employees** say they've also seen or will see a reduction in their hours.

The State of Tipped Workers



Our research notes that many tipped workers are not benefiting from higher menu prices – in fact, some are seeing a decrease in tips as customers are required to pay more for their meals. So we would be remiss if we did not mention tipped workers in this report.

Almost 60% of all tipped workers in the U.S. are waiters and bartenders. Tipped workers are currently not benefiting from the rise in minimum wage. If you are a tipped worker in the United States, your pay is unaffected by new minimum wage laws – but many advocates are trying to change that.

Restaurant owners are facing potential changes to the tip credit, which allows restaurants to pay tipped employees an amount that is lower than minimum wage. Seven states have already eliminated the tip credit: Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington – and New York is seriously considering it.

But in most states, restaurants are supposed to make up the difference if a server does not make the equivalent of minimum wage with their tips. Many restaurants struggle to fulfill this requirement, however, given slim profit margins and high labor costs.

The National Restaurant Association says an increase in tipped wages is unnecessary, as many servers already earn well above minimum wage with tips – so the rise would only serve to further shrink restaurant profits. But many tipped worker advocates disagree.

If you're concerned about changes to the tip credit in your state, please follow [TouchBistro's blog](#). We will be continuing the minimum wage conversation on our blog with more coverage on the state of tipped work for restaurants, as we know this is a topic that is hot on the heels of the minimum wage debate.

SOURCE

<https://fivethirtyeight.com/features/the-minimum-wage-movement-is-leaving-tipped-workers-behind/>

<https://newfoodeconomy.org/new-york-cuomo-proposal-consider-eliminate-tip-credit/>

Research Methodology

This study was conducted by **Maru Matchbox** research firm on behalf of TouchBistro. Results are from 200 Americans living in 18 states affected by minimum wage as of January 2018. The survey was conducted in March/April 2018.

About TouchBistro

Used in more than 100 countries, TouchBistro is the POS that has powered more than 12,000 restaurants worldwide.

TouchBistro makes running a restaurant easier by streamlining and simplifying all aspects of restaurant management – so restaurateurs have more time to focus on their passion and the reason they opened their business in the first place.

Designed to help restaurateurs run a better and more successful business, TouchBistro enables restaurants to make more money, deliver a great guest experience, and take the guesswork out of making business decisions.



TouchBistro is an iPad POS built for restaurant people, by restaurant people – with every feature designed to meet the unique needs and fast pace of the foodservice industry.



Restaurant Insights Report Vol. 2

[TouchBistro.com](https://www.touchbistro.com)