

Switchyard Brewing Company's No Tipping Policy

“Switchyard believes businesses should be responsible for their workers’ wages, not the whim of the customer.”ⁱ

Switchyard Brewing Company, a brew pub in the college town of Bloomington, Indiana, moved to a no tipping policy. As part of this policy, the pub discourages customers from tipping servers. It also boosted server hourly pay to start at \$15 before rapidly moving to \$18, and increased menu pricesⁱⁱ. This was a significant change from the predominant tip-based service culture in the US. Why did Switchyard do it, could the no-tipping policy be fairer, and would its business suffer?

Tipping At Bars And Restaurants

Many service sectors, especially food and beverage services, are staffed by employees whose pay relies on tipping. When their check comes, customers are quoted a price and then expected to add a percentage to increase their payment. These extra payments, called ‘tips’, go to the server. Tips are often described as voluntary expressions of gratitude for good service, but service workers often rely on the money from tips. For this reason, they tend to have strong expectations that tipping will occur.

Given that tipping is a norm (common practice) rather than a legal requirement, many consumers are unclear about how to tip. A generation ago, a 10-15% tip might have been the expectation in the US. In 2022, 15-20% is more standard, with 20% being the safest option for any customer not wanting to under-tipⁱⁱⁱ. That said, the ‘right’ amount of tip depends on service and location^{iv}. In Europe tipping is often not expected. In Canada, the Covid pandemic has left some arguing that 30% is more appropriate, a trend now described as ‘tipflation’^v.

Calculating a tip requires significant math and can be a challenge for customers. Some establishments suggest potential tip amounts at the bottom of the check or on the screen

of a point of sale (POS) machine. Such suggestions are optional but help convey to customers an appropriate tip level.

Minimum Wage Laws

Many jurisdictions have minimum wage laws. For example, the UK introduced a national minimum wage in 1998^{vi} that consolidated a patchwork of laws pioneered by Winston Churchill in 1909. Before becoming a conservative icon, Churchill had argued that supply and demand work well to set wages when both the employers and employees (unions) have effective organization, but a minimum wage is necessary if the employee side is weak. As he said in the UK parliament, where “you have no [worker] organization, no parity of bargaining, the good employer is undercut by the bad, and the bad employer is undercut by the worst”^{vii}.

The US has a federal minimum wage. This has been \$7.25 per hour since 2009^{viii} but it does not cover all employees. Some states have passed laws that help protect employees not covered by federal law. Some mirror the federal minimum wage at the state level. Thirty states plus Washington D.C. have a minimum wage higher than the federal level^{ix}. The state-level jurisdictions with the highest minimum wages are D.C. (\$15.20), Washington (\$14.49), Massachusetts (\$14.25), and California (\$14.00). Five states have no minimum wage law (Alabama, Louisiana, Mississippi, South Carolina, and Tennessee) while two states have minimums below the federal level (Georgia and Wyoming)^x. Indiana’s minimum wage is \$7.25, the same as the federal minimum wage^{xi}.

Tipping adds complications to minimum wage laws. Tips legally have to go to servers (and others involved in the service chain if tips are pooled). On the other hand, mandatory service charges added to the bill may or may not go to servers, depending on the owner’s discretion^{xiii}. Indiana law states that tips that go to servers are allowed to count against the minimum wage. An employer may pay as low as \$2.13 on the understanding that tips would make the hourly rate at least \$7.25.

Unlike a minimum wage, which is a legal lower bound, a living wage is the amount a worker must earn to support a reasonable lifestyle. Many ways of calculating a living

wage have been suggested, and the amount depends partly on location. According to MIT's living wage calculator^{xiii}, a single adult working 2,080 hours a year and supporting only themselves in Monroe County (where Bloomington, Indiana is located) needs \$16.38 per hour to make a living wage.

In Support Of Tipping

The National Restaurant Association argues in favor of the tipping system, saying^{xiv}:

- “Employees must be allowed to retain all of their tips” (tip pools being the exception).
- “Servers support the tipping system”
- “Tipping provides an incentive for exceptional customer service that creates unlimited earning potential for servers.”

By this view, tipping encourages servers to adopt an entrepreneurial attitude where hard work is directly rewarded^{xv}. Servers often appreciate tips^{xvi}.

Voluntary tipping often occurs despite some economic theories' suggesting that it would not. Customers, acting on social pressure or some internal motivation, tip even when they do not foresee returning to an establishment. Many customers seem to enjoy tipping, as it allows them the ability to reward good service^{xvii}. Some feel that it enhances their social status, or want to feel like they are helping the person they are tipping^{xviii}.

Many customers dislike seeing higher prices on the menu even if they end up paying the same price. This can cause problems when trying to transition away from tipping. There have been several attempts to eliminate tipping in the US with only limited success. Joe's Crab Shack, a national chain, got rid of tipping and increased menu prices, only to reverse course after seeing revenues decline^{xix}.

Challenges With Tipping

A practical challenge with tipping is that delivering a service often involves multiple roles. For example, in a restaurant people take orders, bus tables, cook food, bring out food, and accept payment. The server is the face of the organization but the team working behind the scenes is equally vital.

How should tips be shared fairly? Pooling tips may weaken the incentives of frontline workers, although some research suggests that tips' motivational effects are limited anyway^{xx}. Still, sharing tips with behind-the-scenes employees, such as cooks who never receive tips directly, may be seen as fairer by those employees. In Indiana, compulsory tip pooling and sharing tips among the service team is legal but only within certain bounds^{xxi}.

One restaurant owner in San Francisco adopted a no tipping policy and simply added 20% to prices. Employees, especially those behind the scenes, saw a substantial increase in pay and greater provision of benefits. "Our staff are treated like adults, with 'real jobs'. Our labor costs are much higher than most restaurants, but our food cost/loss is much lower, so our profits end up higher. More mature, long-term staff waste less food, make less mistakes, are less likely to steal, and can handle bigger sections"^{xxii}.

Some people simply did not approve of the practice of tipping. Tips are often cash in hand, which may be welcome to workers, but creates tax issues such as potential under declaration of tax. Tipping also transfers risk from the firm to employee. A slow shift (one with few customers dining) would mean less pay for the employee independent of their commitment to providing quality service to customers.

Many worry that tipping perpetuates power imbalances compared to a fixed wage. Switchyard has suggested that 70% of tipped workers are women^{xxiii}, and that tipping could be sexist. Servers feel the need to tolerate inappropriate behavior, including sexual misconduct, from customers to preserve their tips^{xxiv}.

In addition, many have expressed concerns on racial equity grounds, suggesting that the practice of tipping has a racist past: tipping gained popularity as a way for employers to underpay African-Americans after the Civil War^{xxv}. Racial discrimination remains a concern. Research on tipping by Michael Lynn, a Cornell academic, suggests that “consumers of both races discriminated against Black service providers by tipping them less than White service providers”^{xxvi}.

Switchyard has stated that employees deserve a living wage that is not dependent on the whims of customers^{xxvii}. They have asked customers to tell them when service is deficient so management can work on it, arguing that such feedback is much preferable to withholding tips. The owners describe tipping as inappropriate: “We feel [tipping] is just icky”^{xxviii}.

Switchyard seems happy with their choice. Was it a good business decision? Was it good for their employees and customers?

Endnotes

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