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Business

Some restaurants add kitchen service charge

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A new kitchen service charge is now disclosed on some Hawaii restaurant checks. Customer Lloyd Tanaka shows the charge explanation on a bill at Highway Inn, 680 Ala Moana Blvd. Behind are his lunch-mates, Mark Kamahele, left, and Don Suzuki.



2016-08-04 1804-4105 BSN HIGHWAY INN PHOTO BY DENNIS ODA A new kitchen service charge is now explained (on the bottom) on dining checks at the Highway Inn (680 Ala Moana Blvd). Monica Toguchi is the owner of Highway Inn. PHOTO BY DENNIS ODA. Aug. 4, 2016.

More Hawaii restaurants are adding a kitchen service charge to customer checks as they struggle to find ways to compensate nontipped staff without increasing prices.

Kitchen staff can no longer share tips with servers — previously a common practice known as tip pooling — under a recent ruling by the 9th Circuit Court of Appeals. The ruling, which took effect in March, means servers keep all their tips. That would effectively reduce the pay of some kitchen staff unless the restaurant somehow makes up for the loss of pooled tips.

“Operators need to get creative in this day and age to stay in business,” said Gregg Fraser, executive director of the Hawaii Restaurant Association. “The whole reason why they want to do tip pooling is so that we don’t have to pay them more hourly. Every time costs go up in our restaurant industry ... we have to offset that by raising the prices on the menu. How else do we stay business? We don’t want to have to add to that.”

To compensate for the loss of tip pooling, some restaurants, including Highway Inn, have added a 5 percent “kitchen service charge” in recent months, but have lowered suggested tips by that amount to 10 percent, 13 percent and 15 percent.

“We obviously had a few people who were disgruntled,” said Russell Ryan, chief financial officer at Highway Inn.

But most customers understand after the restaurant “explains that essentially all we’re doing is disclosing what was common industry practice,” Ryan said.

Restaurants are hesitant to raise prices in such a competitive dining environment.

"In order to get a 4 percent increase to cooks given in the service charge, we'd have to raise our prices 12 to 15 percent," said Tom Jones, president and co-owner of Gyotaku. "By implementing a kitchen service charge, it's more financially beneficial to the customers."

Gyotaku added a 4 percent fee for kitchen staff with a suggestion on the receipt that customers "reduce your tip by that amount so as not to pay more than usual."

"Just because the customers can't see the kitchen staff doesn't mean that they're not contributing significantly to the overall dining experience," he said. "The quality of the food is important, and the speed of the food is important. We're struggling to help our cooks. Many people think it's servers who don't get paid well. It's really the kitchen staff who earn less, mainly because of disparities between wages and tips. Some customers are uncomfortable with it, but it is, in the long run, less expensive for them."

Jones said he is still revising the wording on the receipts so as not to confuse customers.



Some customers were actually paying their tip on top of tip and service charge, so they were paying more than they were normally paying. We're going to go tell our customers that please take this into consideration when calculating your tip," Jones said. "Some customers have complained about it, some didn't understand it, some customers didn't agree with it, so they voiced their opinions."

Servers' income with gratuity can be two or three times more than kitchen staff who make between \$10 and \$20 an hour.

You can expect to see more restaurants testing the practice of adding a "kitchen staff charge" to bills as the managers try to adjust to the new rule.

Chef Peter Merriman is preparing to add a 2 percent service charge on bills starting at Merriman's in Waimea on the Big Island to offset the court ruling.

"I'm pretty certain (customers are) going to be confused by the issue," Merriman said. "The first thing they're going to say is, 'Why don't you just include it in the price?' We think the waiters automatically got pay raises already, and if we increase the price of food even more, then waiters will make even more. It's a little cheaper this way, actually, for the diner."

The new fee carved out on the check makes it transparent to customers where their money is going and helps keep wages the same for kitchen staff and profit margins intact, he said.

"Restaurants have such thin margins to start with, so when we get a situation like this, it's really scary for us because it could so quickly impact our margin," Merriman said. "If we make up that loss that the back of house has because of the court ruling, then it cuts into our margin. The average restaurant profit margin is 6 percent. Once the 9th

Circuit Court decided that we could not supplement back-of-house employees via tip, we had to find a way to make up that loss and not make the cooks in back of house pay the cost of that.”

