

Dining at a tipping point: What service fees, extra charges mean for diners and restaurants

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When Paul Martin and his wife recently treated themselves to a night out at [The Boathouse at Short Pump Town Center](#), they were surprised when they were charged an automatic 20% service charge.

“It turned out to be the most expensive restaurant bill I’ve ever had at nearly \$300,” Martin said.

Many diners in the Richmond area have been seeing similar charges on their restaurant bills.

A service fee is automatically added to the restaurant bill, pre-tax, by the restaurant. The service fee is typically 18% to 20%, locally. The service fee is often pooled and distributed evenly among the staff, from dishwashers to bartenders.

But there is confusion with these fees. Patrons are often told they can tip on top of the service fee for exceptional service. Also, restaurant owners have the flexibility to use service fees however they like, which means the server does not always get the full 20%.

“For the most part, (the addition of service fees at restaurants) is to defray the massive increase in their labor and food costs,” said Eric Terry, president of the [Virginia Restaurant, Lodging & Travel Association](#). “The reality is that their costs have grown dramatically in the last two to three years.”

Regardless, the experience left a bad taste in Martin’s mouth, as it does for many restaurant patrons.

Martin said he does not plan to return to The Boathouse or to any other restaurant with an automatic service charge.

Other fees are also starting to pop up on restaurant bills, such as credit card fees of 3% for patrons using credit cards, or take-out fees of \$1 to \$2 to pay for paper bags, containers and utensils.

“Going out to eat is starting to feel like booking an Airbnb. You order two \$10 sandwiches and the bill turns out to be \$40,” said Austin Stokes of Richmond. “Getting slapped with all types of fees at the end of a meal definitely dampers the experience.”

Many diners are left wondering: What are these fees? Why are they being added? Where do they go? And should I tip on top of a service charge?

Why service fees are being added

Service fees started gaining traction locally after the pandemic, when restaurants were struggling with the impact of COVID-19, being shuttered for months and facing myriad challenges when they reopened.

Staffing shortages, the increase in the minimum wage, inflation, supply chain issues and an industry shift toward providing employment benefits and a living wage are just a few of the many challenges restaurants are confronting.

The LX Group, which manages [Kabana Rooftop](#), [Switch](#) and [Nama](#), has instituted an 18% service charge at its restaurants.

“We have moved to this system to ensure more competitive wages to our staff as well as give us longevity with staff since turnover has been a huge challenge since COVID. This model has allowed us to provide a more consistent and higher hourly wage to staff,” said Kunal Shah, a managing partner at the LX Group. According to Shah, the full 18% is allocated to the staff.

Likewise, Kevin Healy, owner of [The Boathouse](#) as well as [Casa del Barco](#) and [Island Shrimp Co.](#), said the HOUSEpitality restaurant group added the 20% service fee “as a way to guarantee a wage to our service staff. It’s a step in the right direction to professionalize the industry.”

According to the [Virginia Department of Labor and Industry](#), Virginia’s minimum wage for tipped employees is \$2.13 per hour, and it applies to workers who typically receive more than \$30 per month in tips.

Employers must pay the difference if that wage and tips do not meet Virginia’s minimum wage of \$12 per hour, which went into effect on Jan. 1. Consequently, labor costs for restaurants have gone up between 30% and 40%, Terry said.

The median hourly wage for Richmond-area servers (a figure that should include tips) is \$13.76, which adds up to \$28,620 per year (if a server works 40 hours a week for all 52 weeks).

At The Boathouse, with the service fee now in place, servers typically make around \$20 per hour or higher, which is significantly higher than the average wage.

“We wanted to come up with a reasonable and fair compensation. We distribute it in a way so that (our staff) can have a professional income. They can buy a car, rent an apartment or take a vacation. They can plan and not be dependent on the whim of guests,” Healy said.

Most restaurants that include a service fee notify guests in small print on the menu, on websites or verbally through the server.

“People have been complaining about ‘paying servers a living wage,’ and then balk when menu prices go up. A way to fix that is to charge a service charge, usually 18 to 20%,” said Marla Gallaher, a local server. But, she said, that 20% is not usually passed straight on to the server the way a tip would be. “It is collected by the restaurant and used to provide the higher hourly wages.”

“The public doesn’t always understand why tipping is so crucial. If a server is not tipped appropriately,” they cannot pay their bills, she said.

Differing viewpoints and cancellation fees

Not every restaurant is implementing these fees.

“If the service staff knows their product, times the delivery and assists in a five-star manner, they will probably receive more than 20% in the long run,” said Ann Butler, owner of [21 Spoons](#) restaurant in Midlothian, which was recently named the [“Best Locally Owned Restaurant in Virginia” by Southern Living magazine](#).

There were nearly 8,000 people employed as restaurant servers in the Richmond metropolitan area as of May 2022, according to the Bureau of Labor Statistics.

Many servers earn more than the median server wage, depending on where they work and the tips they get. “The restaurant where I work does not charge a service fee, and I make well over minimum wage,” Gallaher said.

21 Spoons has, however, started collecting a credit card for reservations and charging a \$10 per person fee for no-shows without a 12-hour notification.

“With only 14 tables, this has become a necessity for us. We just wanted to make sure everyone was getting an opportunity to solidly reserve a dinner table,” Butler said, considering the interest in 21 Spoons since the Southern Living article.

[Grisette](#), a small restaurant in Church Hill, also collects a credit card for reservations and charges a \$25 fee for no-shows if the reservation is not canceled by noon on the day of the reservation.

For years, dentists’ and doctors’ offices have charged cancellation fees. Now, restaurants are adopting the practice, seeing it as another way to recoup lost income.

“Restaurants operate on razor-thin margins,” the VRLTA’s Terry said. The average restaurant profit margin usually falls between 3% and 5%. “Their margins are so slim, they can’t absorb the increases they’ve had.”

'We won't eat there'

No matter how much service fees may be needed and necessary, by and large, consumers hate them.

"Very simply, I will discontinue going to Richmond restaurants," said Linda Shelton, a self-described "foodie" in the Fan. "We choose to use a tipping protocol to reward good service and not to pay the 'staff' per say. That is the responsibility of the owner."

Others believe the increase in costs should be added to the menu items.

"I urge restaurants to please account for labor costs in the menu pricing rather than forcing it onto the consumer. Any restaurant we get blindsided by, we'll not be in a rush to eat at again," said Jonathan Nedin of Chesterfield County. "As a consumer, I'd highly prefer to see the prices increased to meet the rising cost of business, and ideally the wages of the employees increased as well. I'd rather know what the true price is so I can make informed selections."

However, menu prices have already increased nearly 8% in the past 12 months, according to a [survey from the National Restaurant Association](#). Many restaurants say they continually adjust menu prices to reflect rising food costs.

Even with inflation starting to taper off, the [Producer Price Index for all foods remained 28%](#) in April, above its pre-pandemic level.

With these rising costs, diners are starting to take notice, with fewer people going out to eat.

Between March 2022 and March 2023, 38% of restaurant operators saw their customer traffic decline, according to the National Restaurant Association.

Add to that the many restaurants that did not survive the challenges of the pandemic.

"We believe 20% of restaurants have closed in Virginia during the pandemic," the VRLTA's Terry said.

Last year, over [15 restaurants closed in the Richmond area](#), with several such as Perch and Lady N'Awlins Cajun Café citing challenges caused by the pandemic as the reason.

"Richmond's a great city with a rich restaurant scene. We've all got to adapt to the conditions we are now in," said Dan Coakley, a former Richmond server. "For restaurants, that might mean adding a service charge. For diners, that might mean reserving eating out for special occasions and going to the grocery store more often."

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Richmond's first kava bar KavaClub denied permit by Health Department, still not open

https://richmond.com/life-entertainment/local/food-drink/richmond-s-first-kava-bar-kavaclub-denied-permit-by-health-department-still-not-open/article_00d14d1a-0bd0-11ee-9d92-13f3db8add0d.html

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KavaClub, Richmond's first kava bar, was set to open in May. Then the Richmond City Health Department denied its permit.

KavaClub still is not open.

Kava is an herbal drink that has been consumed for centuries in the South Pacific. The root of the plant is used to produce a drink with sedative effects. Kava drinkers typically feel blissful and relaxed, but still aware.

But kava as a drink is mostly unknown in Richmond. And KavaClub would be the first kava bar in the city.

For the past 14 months, Fred Bryant Jr. has been busy preparing [KavaClub](#) at 1529 W. Main St. in the former Canon & Draw Brewing Co. spot. Bryant, DJ Lee, Bram Crow-Getty and Keri Gray co-founded KavaClub. Almost one million dollars have been invested in the project, with plans to launch four more locations.

But in late March, KavaClub received notice that its permit was denied by the Richmond and Henrico County Health Districts.

The main issue in question appears to be: Is kava a food, or an additive?

Kava is legal in Virginia and not regulated in any state in the U.S.

KavaClub will be adhering to the traditional preparation method for kava, in which the root is ground and mixed with cold water and then served cold.

KavaClub is not adding an extract, oil or essence to existing beverages, KavaClub said in a presentation to the Virginia Department of Health. The kava is a natural cold tea. It is not an additive in any common sense use of the word, KavaClub said.

But RHHD disagreed. It said, "Water is a food pursuant to §12 VAC5-421-10 of the Regulations. The addition of kava and kratom to the food, affecting the characteristics of the food, water in this case, would make kava and kratom food additives pursuant to §112 VAC5-421-10 and 21 U.S.C. § 321(s)."

“We’re very disappointed, obviously,” Bryant said. “We’re preparing to file litigation about this. We’ve lost faith in the Health Department and its process.”

The Board of Health is charged with the protection of the health and welfare of the citizens of Virginia through the supervision of restaurant operation.

According to the RHHD, kava and kratom are not Generally Recognized as Safe (GRAS), nor approved food additives by the Food and Drug Administration (FDA). As such, they could not approve menu items containing kava or kratom on KavaClub’s menu.

Kratom, a companion drink to kava that will be served at KavaClub, is more controversial. Kratom can have mild upper or downer effects based on the type and the amount ingested.

It is banned in six states, and regulated in a few others. Until this year’s General Assembly session, Virginia had no laws concerning kratom. The Virginia legislature passed a bill this spring that put some very light restrictions on the product, and Gov. Glenn Youngkin signed it into law.

“RHHD has denied the application for permit for KavaClub, and the applicant has filed an appeal in Circuit Court. RHHD takes our restaurant permitting responsibilities very seriously — it is our duty, as the local public health agency, to protect the health of our residents and ensure food safety,” Dr. Elaine Perry, health director, Richmond and Henrico Health, wrote via email.

“We feel confident that a judge will overturn this,” Bryant said. “But the question is, how long will it take? It could be another year (before this is resolved).”

Bryant and his lawyer, Justin Earley, also said that they will be approaching the governor’s office to try to find a practical solution.

While he is waiting, Bryant is already planning to take the KavaClub concept to other states. His goal is to expand to 50 units in the next five to seven years.

Over 280 kava bars have popped up across the country, according to Google reviews, with more on the way. [Food & Wine magazine](#) recently ran a story that said, “For a booze-free buzz, Americans are heading to kava bars.” The article noted “exciting non-alcoholic” kava bars arriving in cities like Austin, Brooklyn and more.

“Virginia has been inhospitable, to say the least,” Bryant said. “We’re not going to let a bureaucratic hurdle stop us. There are plenty of other states that would be happy to have us.”

Where are Richmond's 'ghost kitchens?' You may have already ordered from one

https://richmond.com/food-drink/ghost-kitchens-pasquallys-pizza--wings-richmond/article_8f1c5e96-c8ac-11ed-be51-4fe19c9cbeb7.html

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Do you know who you're really ordering from on DoorDash and UberEats? Sometimes, it's not always clear.

For example, if you order a chicken sandwich from [Conviction Chicken](#), you are really getting it from [TGI Fridays](#).

Or if you order wings from [It's Just Wings](#) on DoorDash, the food is coming out of the kitchens of [Chili's](#) or [Maggiano's](#).

And perhaps most famously, if you order a pizza from [Pasqually's Pizza & Wings](#) on GrubHub, it is really coming from the kitchen of [Chuck E. Cheese's](#).

Ghost kitchens saw a surge in popularity during the pandemic when restaurants shuttered their doors and people began ordering delivery instead. The market for online on-demand food delivery services in the U.S. is estimated at \$95.1 billion for 2022. It is projected to reach \$400.7 billion by 2030, according to [ResearchAndMarkets.com](#).

"The food service business has changed forever," Curtiss Stancil, owner of A.M. Kitchen Company, an independent provider that operates 15 restaurant brands out of three kitchens in the Richmond area, said.

'Our pivot has turned into a growing enterprise'

Stancil operated a successful catering company in Richmond for years, but pivoted during the pandemic, launching [Anniebell's Famous Oven Fried Chicken](#) and [Da Best Damn Breakfast](#) out of Hatch Kitchen.

He now has three kitchens, one in Scott's Addition at CloudKitchens, launched by former Uber CEO Travis Kalanick, and another in Chesterfield called A.M. Kitchen at 9545 Amberdale Drive, which offers in-person dining and delivery. A.M. Kitchen now serves a total of 15 restaurant brands from three kitchens.

The newest location for the [A.M. Kitchen Company](#) recently opened on the VCU campus at 815 W. Cary St. It serves menus from six different restaurants including Da Best Damn Breakfast, [Breakfast Chick](#), [Flapjack Hut](#), [Bite Me](#), Mr. Beast Burger and Pardon My Cheesesteak, all under one roof. Food is available for dine-in, take-out or delivery via Doordash, Grubhub or Ubereats.

“Our pivot has turned into a growing enterprise,” Stancil said. “We’ve been able to meet the demand.”

The business started in 2020 with two employees and has now grown to 22.

“We grew very fast during COVID because of the [dine-in] restrictions,” Stancil said. “I see where the market is going. It’s now a balance of consumers: some who want to dine in, some who want it delivered directly to them.”

National brands like [Chick-fila-A](#), [Cracker Barrel](#), [Jason’s Deli](#) and more have launched online-only brands, focusing on everything from burgers to pancakes to stuffed baked potatoes. “Everyone wants to operate multiple brands out of the same kitchen,” Stancil said.

Besides his own restaurant concepts, A.M. Kitchen also licenses other restaurant concepts, like [Mr. Beast Burger](#), the brainchild of YouTuber Mr. Beast, real name Jimmy Donaldson, which became a viral sensation when it was released in 2020. Mr. Beast Burger is now offered in [over 1,700 locations across the U.S.](#)

“We deliver Mr. Beast in the Richmond market,” Stancil said. “Otherwise, it comes out of Red Robin.”

A.M. Kitchens also bakes and delivers [Mariah Carey Cookies](#) and just added a new brand, [Pardon My Cheesesteak](#), which originates from the comedic podcast “Pardon My Take.”

Stancil said that business is now 50% dine-in and 50% delivery. He describes his business as a micro food hall, on-demand restaurant.

But A.M. Kitchen is not the only virtual food hall in town.

Virtual food hall ChefSuite is now open

[ChefSuite](#), a new ghost kitchen and virtual food hall, recently opened at 4711 W. Broad St.

The space has launched with three independent, local restaurants: [Latin Quarter Kitchen](#), specializing in smashed plantain sandwiches, comfort food [A Pinch of Sugar](#) and [On A Roll Italian Subs](#). Each restaurant is available for pickup or delivery via DoorDash, UberEats, GrubHub or through the website order.chefsuite.com.

ChefSuite is the brainchild of two friends, Jay Modi and Jarnail Tucker, both originally from New Jersey, who came up with the concept. They picked Richmond because of its growth and buzzing dining scene.

“I’ve been visiting for years. I saw the growth in Scott’s Addition. I’ve always known there’s a passion here for supporting local business and supporting the arts, whether it’s culinary, food or music,” Tucker said. “Everybody wants to see people do new things here and exciting new concepts. This is the perfect place.”

There are spaces for 16 kitchen suites for rent, each operating unique dining concepts. Suites run in size from 200 square feet to 400 square feet and come with exhaust hoods, commercial use sinks, cold storage and everything one would need to run a business, Modi said. Rent currently starts at \$2,700 per month.

Customers can place their restaurant orders via third party apps like DoorDash and UberEats for delivery. Or customers can physically place their orders at a kiosk in the lobby at ChefSuite and pick up their items to go. Dine-in is not an option at ChefSuite, which offers 31 devoted parking spots for delivery drivers and customers.

“We don’t really like the term ‘ghost kitchen,’” Tucker said. “Because we’re a very transparent, brand new company. We want people to know who we are. We want people to know what we’re doing, especially our tenants.”

“We want people to be proud to come to work. We have ChefSuite branding in here. It’s very bright and welcoming. We want our tenants to bring their friends and family here,” Modi added.

With 13 more suites available for rent, new restaurants at ChefSuite are expected to be announced soon.

“It shows how the whole industry has been pivoting in a lot of ways to reach new customers,” Robert Melvin with Virginia Restaurant, Lodging & Travel Association said.

Ghost franchises push independents out of the market

Some local restaurants say they are being squeezed out of the ghost kitchen industry by the national brands masquerading as other restaurants online.

Husband-and-wife duo [Jon Martin and Liz Clifford came up with the idea for three delivery-only restaurants](#), all operated out of one kitchen, right at the start of the pandemic.

They launched Fat Kid Sandwiches, Victory Garden and Garden Party out of Hatch Kitchen in Scott’s Addition in 2020.

But the steep fees they had to pay to third party apps like UberEats or DoorDash — 26% to 30% — quickly made the ghost kitchen model not feasible.

“Originally we viewed those fees as marketing. We were just trying to get our name and brand in front of people’s eyes. If you’re scrolling through UberEats and see Fat Kid

Sandwiches, we're registering in customers' minds," Clifford said. "But as we became more established, giving away 20% to 30% became unreasonable."

And the bad rap of ghost franchises eventually became a negative as well.

"The things that really hurt us were those corporate ghost kitchens, tricking people into eating from Chuck E. Cheese. It made people trust independent restaurants like us less," Clifford said.

Clifford and Martin eventually focused on [Fat Kid Sandwiches](#) solely and opened a brick-and-mortar stall at [Hatch Local Food Hall](#) in Manchester at 400 Hull St. Through Hatch, Fat Kid Sandwiches is available for delivery via DoorDash.

"I think there is a demand for food delivery services, but I wish we could find a way to have a local alternative that isn't DoorDash or UberEats," Clifford said.

Chop Chop RVA was a local delivery service that charged a lower commission rate, but it ceased operations last summer.

"We're at the intersection of restaurants and technology. And the market will continue to grow," Stancil said. "The industry has changed forever."