Tipping and Its Alternatives: A Comparison of Tipping, Service Charges, and Service-Inclusive Pricing

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Abstract
Hospitality executives and managers can compensate employees through voluntary tipping, service charges, or service-inclusive pricing. Rather than take a default position or simply follow local practices, managers should carefully weigh the pros and cons of each policy and should knowingly choose the approach that best suits their circumstances. This Center for Hospitality Research Report is designed to facilitate such thoughtful decisions about how to compensate employees. It outlines the business issues surrounding tipping and its alternatives, summarizes what we know about those issues, and identifies questions in need of further research. The principal benefits to hospitality firms of voluntary tipping are that it lowers nominal prices, increases profits through price discrimination, motivates up-selling and service, and lowers FICA tax payments. However, tipping also motivates discrimination in service delivery, gives servers surplus income that could go the firms’ bottom line, increases the risk of income-tax audits, and opens firms up to adverse-impact lawsuits. The alternatives to tipping (i.e., service charges and service-inclusive pricing) have their own sets of costs and benefits. Ultimately, no one policy is always necessarily the best. Therefore, the report presents the pros and cons of each policy with respect to nine different considerations.

Keywords
tipping, gratuities, service charges, service-inclusive pricing, payment bundling, price discrimination

Disciplines
Business | Food and Beverage Management | Hospitality Administration and Management

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by Michael Lynn, Ph.D.
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EXECUTIVE SUMMARY

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The principal benefits to hospitality firms of voluntary tipping are that it lowers nominal prices, increases profits through price discrimination, motivates up-selling and service, and lowers FICA tax payments. However, tipping also motivates discrimination in service delivery, gives servers surplus income that could go to the firms' bottom line, increases the risk of income-tax audits, and opens firms up to adverse-impact lawsuits. The alternatives to tipping (i.e., service charges and service-inclusive pricing) have their own sets of costs and benefits. Ultimately, no one policy is always necessarily the best. Therefore, the report presents the pros and cons of each policy with respect to nine different considerations.

ABOUT THE AUTHOR

Michael Lynn, Ph.D., is an associate professor at the Cornell University School of Hotel Administration (mll3@cornell.edu). In addition to his extensive study of tipping behavior, his research has examined status consumption and consumers’ response to product scarcity. He has published over 50 articles in numerous journals, such as Journal of Consumer Research, Journal of Applied Social Psychology, Journal of Personality and Social Psychology, American Psychologist, and Personality and Individual Differences. One of his articles on ethnic differences in tipping recently won the 2004 W. Bradford Wiley Memorial Research Award given by CHRIE, the Council on Hotel, Restaurant, and Institutional Education.
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Tipping is a widespread practice in many service industries, with decisions about whom and how to tip largely determined by social custom. However, hospitality executives and managers need not accept the dictates of custom in deciding how to compensate service employees.

Instead of tipping, some hospitality operators have instituted service charges or service-inclusive pricing as a method of remunerating their servers. Furthermore, some of those firms prohibit employees from accepting further tips. Operations that have instituted service charges include cruise lines,1 resorts,2 and private clubs,3 as well as some hotels4 and restaurants.5 In 2005, for example, chef-own...
### Exhibit 2

Restaurateurs’ experiences with service charges as reported in the trade press.

<table>
<thead>
<tr>
<th>Restaurateur</th>
<th>Restaurant</th>
<th>Location</th>
<th>Reported experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barry Wine³</td>
<td>The Quilted Giraffe</td>
<td>New York, New York</td>
<td>“Customer reaction has been very positive. I have found less than 1 percent of our customers have commented on it negatively (p. 5).”</td>
</tr>
<tr>
<td>Sigi Krauss¹</td>
<td>Briar Hurst Manor Inn</td>
<td>Manitou Springs, Colorado</td>
<td>“Kraus will waive the charge if patrons feel it is not deserved, a policy twice enforced. ... Kraus has not seen his business decline (p. 6).”</td>
</tr>
<tr>
<td>Len Allison¹</td>
<td>Hubert’s</td>
<td>New York, New York</td>
<td>“Allison’s patrons have been accepting of the service charge (p. 6).”</td>
</tr>
<tr>
<td>Richard Perry¹</td>
<td>Richard Perry Restaurant</td>
<td>St Louis, Missouri</td>
<td>“Most patrons do not even comment on the policy. Of those who voluntarily remark, Perry estimates that positive comments outweigh the negatives by about five to one. Business has not been adversely affected by the policy (p. 7).”</td>
</tr>
<tr>
<td>Fred Abood²</td>
<td>Green Derby</td>
<td>Jacksonville, Florida</td>
<td>“Aboud feels the results have been excellent and thinks his approach to imposing a service charge has a great deal to do with its customer and employee acceptance. Aboud reports only two customer complaints in the two years since the service charge has been in effect. ‘The reason for its acceptance,’ says Aboud, ‘is that my customers are aware from the moment they walk in that a service charge will be added to their check total’ (p. 116).”</td>
</tr>
<tr>
<td>Jimmy Schmidt¹</td>
<td>Wharf</td>
<td>Lauderdale-By-The-Sea, Florida</td>
<td>“Stephanis, for the most part, has experienced no difficulties. In fact, he is extremely pleased with the results (p. 116).”</td>
</tr>
<tr>
<td>Dick Siple¹</td>
<td>Siple’s Garden Seat</td>
<td>Clearwater, Florida</td>
<td>“Siple is pretty confident that the majority of his patrons don’t object to the mandatory 15 percent. ... In the initial four months of using the service charge, Siple can recall only two instances of customer complaints. In both cases, the customers’ reactions to the decisions of eight restaurateurs who had implemented service charges were refunded (p. 31).”</td>
</tr>
<tr>
<td>Jimmy Schmidt¹</td>
<td>Rattlesnake Club</td>
<td>Denver, Colorado</td>
<td>“During the first couple of weeks, Schmidt noted a few complaints. But overall, he says, he was amazed at how well it worked. ‘Once the customers understand, they’re very accepting of it (p. 116).’”</td>
</tr>
<tr>
<td>Detroit, Michigan</td>
<td>Rattlesnake Club</td>
<td>Detroit, Michigan</td>
<td>“Sales at the Rattlesnake Club in Detroit have doubled since the high-proﬁle restaurant abandoned a controversal program of service charges and returned to the traditional system of voluntary tipping.”</td>
</tr>
<tr>
<td>Denver, Colorado</td>
<td>Rattlesnake Club</td>
<td>Denver, Colorado</td>
<td>“We ran Rattlesnake in Denver for two years without a service charge,” Schmidt said, ‘from December 1985 to December 1987. Then in the first month we put it in, we had a 27-percent drop in sales.”</td>
</tr>
</tbody>
</table>

¹ Source: Waitstaff Compensation: Tips vs. Service Charges

Although consumers say they do not like service charges, there is little evidence that guests will stay away because of them. “Once the customers understand [the service charge], they’re very accepting of it.” Thus, the available cases suggest that consumers will accept even their least-preferred policy, that is, service charges. From this discussion I conclude that consumers’ preferences need not dictate tipping policies.

### Nominal Prices

When talking about tipping, service charges, and service-inclusive pricing it is helpful to make a distinction between nominal and real prices. Nominal prices constitute only a part of the final bill, which also comprises unstat ed charges, such as taxes, service charges, or tips. The prices on most restaurant menus, for instance, are nominal prices, as is the case with most hotel room rates and cruise fares.

In contrast, real prices are the total costs to consumers of goods and services including all unstat ed charges. Nominal prices are generally lower with tipping and service charges than with service-inclusive pricing, because tips and service charges cover some labor costs that would otherwise add to nominal prices. By lowering nominal prices, hospitality firms can reduce distribution costs and increase demand, as I discuss next.

### Reduced Distribution Costs

Commissions paid to travel agents, tour operators, or online distributors (such as Expedia) are based on a percentage of the sales they generate. With tipping and service charges, lower nominal prices reduce sales figures, so commission payments are not as high as they might otherwise be. The benefits are difficult to see because they are accompanied by those reduced sales figures, but they are real. The following hypothetical calculation shows why.

Say that an organization which uses service-inclusive pricing generates $100 in sales with transactions that involve labor costs of $30 and other production costs of $40. Further assume that the organization must pay a 3 percent commission to distributors. Under the service-inclusive pricing

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³ Better prediction can be made from attitudes toward the behavior. In other words, consumers’ attitudes toward dining at restaurants with tipping, service charges, or service-inclusive pricing would better predict their patronage of restaurants with those policies than would their attitudes toward the policies themselves. Unfortunately, information about these attitudes is not available. See: David G. Myers, “Module 9: Behavior and Belief,” Exploring Social Psychology (New York: McGraw Hill, 1994), pp. 82-92.

system, the firm earns $25 on $100 in sales.14 Now assume that $20 of labor costs are covered by tips or service charges and that nominal prices are reduced accordingly. Sales and labor costs fall, while everything else (including the actual number of sales transactions) remains the same. In this case, sales drop to $80, labor costs fall to $10, other production costs remain at $40, and the commission is $4.00 (still 5 percent). Thus, the firm is making a profit of $26.00 on $80 in sales (which are equal to this instance to $100 of sales with service-inclusive pricing).15 In this hypothetical case, shifting some employee expense to tipping or service charges increases profits by 4 percent on an equivalent amount of business. (Stated sales declined in nominal terms, not in terms of lower volume.) Thus, when labor costs are built into prices, companies pay commissions on those labor costs. By taking a portion of labor costs out of nominal prices and sales figures, tipping or service charges reduce the commissions paid on labor costs and thereby increase profits.

Increased Demand

Consumers may focus on nominal prices (rather than real prices) as they compare the expense of competing services. If they do so, the lower nominal prices made possible by charging different customers different prices for the same service can attract customers who would otherwise be uninterested in the service.21

Research is needed to determine the influence of nominal and real prices on consumers’ perceptions of how expensive a service is. Until such research is conducted, however, executives and managers can take guidance from general decision-making theory and research, which suggest that people do focus on nominal prices when assessing expenses that are important to them.

Research on decision-making has found that the easier information is to acquire and use, the more likely it will actually be applied in decision making.18 Nominal prices are generally easier to discover than real prices because nominal prices are insensitive to demand, while everything else (including the actual number of sales transactions) remains the same. In this case, sales drop to $80, labor costs fall to $10, other production costs remain at $40, and the commission is $4.00. Consequently, price-insensitive customers may be attracted to the service, and thereby increase profits.

Price Discrimination

Charging different customers different prices for the same service results in higher revenues and profits when (1) consumers differ in price sensitivity; (2) the prices charged match each customer’s willingness to pay; and (3) demand from price-insensitive customers is lower than is necessary to cover the firm’s production capacity. In that case, revenues and profits are maximized because firms extract more money from price-insensitive customers without losing the business of price-sensitive customers.22 Tipping represents a form of price discrimination, because it allows some customers to pay less than other customers for the same service. Although all customers must pay the same nominal price for that service, they can differ in the amounts that they tip. As a form of price discrimination, tipping is unique in two respects that deserve discussion. First, the price differentials paid under tipping are voluntary. Consequently, price-insensitive customers could avoid paying a price premium by tipping as little as possible. Price insensitivity (or the amount consumers are willing to pay for a service) should increase with income and perceptions of value, both of which are associated with larger tips.19 Thus, price-insensitive customers do pay a price premium by tipping more than their price-sensitive counterparts. Second, firms do not directly receive revenues from tips, as they do from other premium prices charged to price-insensitive customers. However, as discussed below, they do receive those revenues indirectly in the form of lower labor costs. Since price-sensitive customers can and do keep their costs down by tipping less than price-insensitive customers, and since the price premiums paid by the price-insensitive customers go directly to the service firm, the price discrimination achieved through tipping means increased sales and profits as long as the price-sensitive customers are filling seats that would otherwise be empty.23 This filling of seats with price-sensitive customers may have operated in the case of the Rattlesnake Club restaurants described previously. When demand from price-insensitive customers is strong and price-sensitive customers are not needed to fill seats, however, price discrimination through tipping simply attracts a more diverse customer base without enhancing revenues or profits. Therefore, firms enjoying strong demand and seeking a relatively exclusive upscale clientele may want to replace tipping with service charges or service-inclusive pricing as a way to discourage price-sensitive customers.

Payment Bundling

Although many credit card users combine their tip payment with the check payment, the payment of tips is just as typically separated in time and place from the payment of the bill. Hospitality operators may want to minimize this separation of payments, because research on decision making has found that people feel more pain over two small losses than over one large loss that is comparable in size to the combined small losses.17 In other words, decision-making research tells us that people will find the separate payments for the check and the tip under a tipping system to be more distressing than the single payment of a comparable amount under a service-charge or all-inclusive pricing system. Research is needed to test this effect and to assess its impact on purchase behavior. Until that research is done, executives and managers can minimize this issue by encouraging customers to add the tip to their bill and make a single payment.

Server Incentives

Decision-making theory suggests that consumers focus on nominal (posted) prices in making a purchase—prices that are lowered by the presence of tipping.

Server Incentives

One set of arguments for tipping involves its supposed incentive for servers to up-sell menu items and to deliver good service. In contrast, it is thought that service charges provide an incentive to up-sell and to deliver better service, and that service-inclusive pricing provides no incentive for either activity. These assumptions are not entirely supported, as I explain next.

Incentives for Up-Selling

The up-selling argument seems simple enough, but research has indicated that this incentive for up-selling will motivate behavior only if servers actually expect their up-selling efforts to affect customers’ orders.24 More research is needed on this issue, but managers should not assume that tipping or service charges alone will motivate their staff to up-sell. Servers must also feel that they are competent to make the sale for tipping and service charges to increase their selling efforts.

14 Calculated as follows: $100 (sales) - $30 (labor costs) - $0 (other production costs) - $5 (commissions) = $22 (profit).
15 Calculated as follows: $80 (sales) - $10 (labor costs) - $40 (other production costs) - $4.00 (commissions) = $28.00 (profit).
The value of tipping as a system for motivating servers is lower than commonly believed.

Incentives for Good Service

The common idea that voluntary tipping policies enhance service levels is important, but no direct tests of this idea have been published. Numerous studies have tested the idea that consumers tip more for better service, but when I ana-
lyzed those studies I found only a tiny correlation between tip sizes and customers’ evaluations of the service or the dining experience.28 The correlation is so small that servers are unlikely to notice the effects of their service efforts on the tips they receive. While it is not clear how much the weak service-tipping relationship in restaurants generalizes to other service contexts, it does suggest that tip-
ping may not strongly motivate servers to deliver good service as many believe.29 Then again, if servers believe that good tips depend on good service, that belief may trump any hard evidence.

Other Incentives

When servers focus on their tips, some of them may have an incentive for undesirable actions. First, an expectation of high tips may cause servers to give less attention to certain patrons, including Blacks, foreigners, women, teenagers, the elderly, and anyone bearing coupons.30 Second, tipping en-
courages servers to focus on their own tables and to ignore the needs of other guests. Unless tips are pooled (which reduces the incentive for individual effort provided by tipping),

helping another server is irrational because it reduces a server’s ability to attend to his or her own customers. Finally, tipping encourages servers to give products to services free of charge. Research has found that customers are more likely to perceive that servers give larger tip sizes.31

In particular, service organizations with a large clientele of people perceived to be poor tippers might well look to other means of attracting talented servers, because tipping often results in higher overall pay for servers than is possible under service charges or service-inclusive pricing. None of these possibilities has been adequately tested by research. However, if tip-
ning does, in fact, offer that competitive advantage in hiring, hospitality employers who use service charges or service-
inclusive pricing could reduce any competitive advantage by making sure to offer wages competitive with tip incomes.

Pay Levels

According to the Bureau of Labor Statistics, tipped server workers earn hourly incomes that are roughly the same as those of non-tipped service workers.32 However, tipped em-
ployees rarely report all their tip income,33 so the statistics may be misleading—especially for high-end establishments where tips are based on relatively high menu prices and thus are more generous than those found in low-end places. In fact, my own experiences as a tipped employee and my conversations with other people in the hospitality industry suggest that many tipped workers earn far more tips than they could possibly earn in wages from other types of work involving similar skill sets. This income premium helps to attract and retain good employees in tipped positions. On

the other hand, it also gives the servers income that might otherwise go to the restaurant if tipping were replaced with service charges or service-inclusive pricing—provided wages were adjusted to offset only part of the lost money. Because the hos-

telry operator pays tax on tips that an employee actually claims. However, underreporting creates a long-term liability because employers are responsible for paying FICA taxes on all of the tips that their employees fail to declare. If the IRS audits a firm and finds underdeclared tip income, it can assess back taxes on that income along with penalties and interest. Moreover, the Supreme Court recently upheld the use of aggregate tip estimates to calculate employer FICA tax liability, so audits are easier for the IRS and more costly for firms than in the past.35

Rather than use service charges or service-inclusive pricing, hospitality operators can confidently use tipping and reduce the associated tax liabilities by participating in one of two programs that the IRS has set up for increasing tip reporting. The Tip Rate Determination Agreement (TDRA) is an arrangement in which the IRS agrees not to audit an employer for underdeclared tip income if the employer gets 75 percent of his or her tipped employees to promise in writ-
ing to declare tip income equal to some percentage of sales predetermined by the IRS.36 The Tip Reporting Alternative Compensation (TRAC) is a similar arrangement in which the employer is freed from audits of tip income in exchange for educating employees every quarter about their obligation to report all tip income.37 Although these programs increase tip reporting, they do not completely eliminate underre-
porting of tip income. In essence, the IRS is agreeing to let firms get away with having employees underreport some of their tip income in exchange for having more of it declared than would otherwise occur. Thus, while the IRS would be giving the TDRA and TRAC programs can still benefit from the increased attractiveness of jobs involving untaxed income while eliminating the tax liabilities of having employees who under-report tips.

Discriminatory Practices

I know of no lawsuits arising from consumer discrimination in tipping, but it is possible that such claims might be made at some point. Title VII of the Civil Rights Act of 1964 pro-
hibits employment discrimination on the basis of race, color, religion, sex, or national origin.38 Furthermore, in Griggs

27


29 David Strasheim, Bruce Bond, Reed Fisher, and Michael Lynn, “Sweat-


31 Internal Revenue Service, Tip Income Study, Department of the Treas-
ury, Publication 1550 (8-90), Catalog Number 12482K.

32 More important, the U.S. Internal Revenue Service (IRS) estimates that the service context. See: Michael Lynn and Robert Gregor, “Tipping and

33 More details about these two programs can be obtained at the Internal Revenue Service’s website (www.irs.gov) or by contacting the IRS.

34 D. P. Twomey, Labor and Employment Law, tenth edition (Eagan, MN: HR Reports • May 2006 • www.chr.cornell.edu

ycpa.com/prertips/cjpt/2004/07/p24l.htm, as viewed 7/3/06.

36 Ibid.


38 Labor and Employment Law
The Center for Hospitality Research • Cornell University

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v: Duke Power Company, the Supreme Court ruled that the Civil Rights Act of 1964 prohibits business policies and practices that have a disparate impact on protected classes of applicants and employees even if those policies and practices appear at face value to be neutral and are not intended to discriminate. Thus, one might be able to argue that tipping is an illegal means of compensating employees if consumers’ tipping behavior discriminates against protected classes of servers. Little research has examined customer discrimination in tipping, but in the few studies that have examined the effects of server sex on tipping, waitresses sometimes received larger tips on average than did waiters. Furthermore, race has also been shown to affect tipping. Black taxicab drivers received smaller tips on average than did white cab drivers. This was true regardless of the race of the tipper. Both black and white tippers gave white drivers larger tips than they did black drivers. This is another issue in need of further research, because the studies examining these effects are too limited in number and in diversity of settings to support broad generalizations about customer sex and race discrimination in tipping. However, the existing studies do suggest that such discrimination occurs at least sometimes and in some places, so at least some service firms may be subject to adverse-impact employment-discrimination lawsuits stemming from their voluntary tipping policies.

The idea that employers might be held liable for their customers’ discrimination will come as surprise to many, so let me elaborate on it. Business necessity is a legitimate defense against disparate-impact claims, so tipping does not violate the law as long as it is a business necessity. However, the burden of proof for a business-necessity defense falls on the defendant. There are legitimate business reasons for preferring tipping over service charges or service-inclusive pricing in at least some cases, but it is unclear whether those reasons rise to the level of business necessities. In any event, trying to prove that tipping is a business necessity could be difficult and expensive. Moreover, any discriminatory effects of tipping can be offset if tips are pooled and distributed equitably among the service staff. Thus, employers who permit servers

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**Exhibit 3**

Summary of questions in need of additional research

1. How do consumer preferences regarding tipping and its alternatives affect their patronage behavior? (e.g., Does consumers’ dislike of service charges reduce their patronage of establishments with service charges?)
2. How do consumers perceive the relative expensesiness of establishments with voluntary tipping, service charges, and service-inclusive pricing holding real prices constant?
3. Does voluntary tipping increase demand for services from price sensitive customers? How much?
4. Does the pain of making separate payments to the server and the firm decrease demand for services? How much?
5. Do voluntary tipping policies improve service levels? How much?
6. Do servers provide worse service to customers perceived to be bad tippers? How much worse?
7. Do voluntary tipping policies increase employee gifts to customers of goods that the customers should be charged for?
8. Do tip pooling, service charges and/or service-inclusive pricing improve cooperation among servers? How much?
9. Do consumers expect service charges to go to the people who directly served them? Do they get upset if service charges are used for purposes other than compensating those who directly served them?
10. Does tipping cause poor servers to leave the industry?
11. Does tipping attract higher quality employees than other forms of compensation?
12. Do higher and more stable wages afforded by replacing tipping with service charges or service-inclusive pricing attract a more professional service staff?
13. Do consumers tip different amounts depending on the servers’ sex, age, race, national origin or religion? If so, how strong and widespread is this tendency?

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**Exhibit 4**

Summary of the benefits offered by tipping, service charges and service-inclusive pricing

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Tipping</th>
<th>Service Charge</th>
<th>Service-Inclusive Pricing</th>
<th>Benefit</th>
<th>Especially Strong or Important When</th>
</tr>
</thead>
<tbody>
<tr>
<td>Match consumer preferences</td>
<td></td>
<td></td>
<td></td>
<td>Commissions paid to distributors are high</td>
<td></td>
</tr>
<tr>
<td>Lower distribution costs (via lower nominal prices)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase demand (via lower nominal prices)</td>
<td></td>
<td></td>
<td></td>
<td>Customers are price sensitive</td>
<td></td>
</tr>
<tr>
<td>Higher profits (via price discrimination)</td>
<td></td>
<td></td>
<td></td>
<td>Customers differ in price sensitivity (e.g., when customers have diverse socio-economic backgrounds) and price sensitive customers are needed to fill seats</td>
<td></td>
</tr>
<tr>
<td>Decrease demand from lower socio-economic consumers</td>
<td></td>
<td></td>
<td></td>
<td>Demand is strong and more exclusive, upscale customers are desired</td>
<td></td>
</tr>
<tr>
<td>Lower psychological costs to consumers (via payment bundling)</td>
<td></td>
<td></td>
<td></td>
<td>Payments of tips and bill are separated in time or place</td>
<td></td>
</tr>
<tr>
<td>Motivate up-selling</td>
<td></td>
<td></td>
<td></td>
<td>Servers are trained how to sell and feel competent to do so</td>
<td></td>
</tr>
<tr>
<td>Motivate good service</td>
<td></td>
<td></td>
<td></td>
<td>Rarely—tips and tip policies are only weakly related to service</td>
<td></td>
</tr>
<tr>
<td>Motivate equal service for all customers</td>
<td></td>
<td></td>
<td></td>
<td>Large portion of customer base consists of ethnic minorities, foreigners, women, teenagers and the elderly</td>
<td></td>
</tr>
<tr>
<td>Redistribute income from tipped staff to non-tipped staff or to the bottom line</td>
<td></td>
<td></td>
<td></td>
<td>Tipped staff make substantially more than non-tipped workers</td>
<td></td>
</tr>
<tr>
<td>Attract talented workers (due to high income potential)</td>
<td></td>
<td></td>
<td></td>
<td>Tips are high relative to wages for other jobs</td>
<td></td>
</tr>
<tr>
<td>Attract more professional workers (due to income certainty)</td>
<td></td>
<td></td>
<td></td>
<td>Wages are high as well as stable</td>
<td></td>
</tr>
<tr>
<td>Lower FICA tax payments</td>
<td></td>
<td></td>
<td></td>
<td>Servers fail to declare large amounts of tip income</td>
<td></td>
</tr>
<tr>
<td>Lower risks from tax audits</td>
<td></td>
<td></td>
<td></td>
<td>No agreements have been reached with the IRS</td>
<td></td>
</tr>
<tr>
<td>Lower risks of adverse impact lawsuits</td>
<td></td>
<td></td>
<td></td>
<td>Tips are not pooled and protected classes receive lower tips</td>
<td></td>
</tr>
</tbody>
</table>

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West, 1998.


Weighing the Pros and Cons of Each Option

To protect themselves against such a lawsuit, large chains My discussion of tipping and its alternatives reveals many questions still in need of research. Exhibit (on the previous page) summarizes those questions. Since the answers are not immediately forthcoming, I summarized the relevant issues and what I know or can assume about them in Exhibit 4 (on the previous page). All the issues in that exhibit are framed in terms of the extent to which each issue is a benefit to the service firm favoring tipping, service charges, or service-inclusive pricing (shown with thumbs up or thumbs down). Furthermore, the conditions under which each benefit is especially strong or important are identified.

An examination of Exhibit 4 reveals that none of the policies is always the best. Hospitality executives and managers need to weigh the pros and cons of each policy given their own circumstances. Unfortunately, there is no way to accurately compare the different benefits using a common, objective metric, so decision makers must use their own best judgment. In particular, a decision can be made clearer when one or another issue makes a particular policy stand out from the others (whether positively or negatively). In conclusion, I suggest that the operators of hospitality firms base their tipping policies on a careful consideration of the issues raised in this report, rather than merely to adhere to local industry norms.

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