

## Will Food Costs Soon Rival Restaurants in San Francisco?

With customers demanding a better product, they might.

BY [GWYNETH BORDEN](#) | AUG 17, 2015 @ 2:17 PM



AP Eric Risberg

Two years ago, there was a pitched debate about \$4 toast and whether it was ruining San Francisco. Many wanted to attribute it to gentrification and restaurants catering to the one percent. But the reality had much less to do with that.

It's expensive to make food well, to foster an environment where waiters, cooks, and busboys are fairly compensated, and to source from local farms that practice good land stewardship. And it's difficult to provide a quality product—antibiotic and hormone-free dairy, organic produce—when there's constant pressure to create cheaper food options, because ultimately restaurants and retailers are still competing for the consumer based on price, which doesn't exactly reward best business practices.

Now that customers are demanding a better product, pricing has gone up. And as government regulations enforce a higher quality of life for people in the service and food industry, prices will continue to rise.

California is the first part of the country to truly feel this impact. Its cuisine is synonymous with farm to table and with that comes not only looking after the animals and the earth, but also supporting people working the land. San Francisco has always been on the bleeding edge of progressive politics, and nowhere is that more apparent than in workplace mandates. And while there's much to cheer about for workers, it's certainly not easy for restaurateurs who have been dragged along at times, screaming about how they can't afford to pay for these mandates when their average profit margin is four to six percent.

The minimum wage is currently \$12.25, and will rise to \$15, by 2018—before Seattle and L.A.—and there's no tip credit, so tipped workers make \$12.25 hourly, plus tips, which they don't have to share with cooks due to State labor law. San Francisco businesses also have a required hourly spend for healthcare, which is completely separate from what's mandated in the Affordable Care Act, and impacts restaurants with 20 employees or more.

Since San Francisco restaurants are saddled with higher costs, many have had to change the structure of the restaurant experience, particularly when it comes to the bill. Here are a few of the changes that they've pioneered:

### **The Surcharge**

**What:** An additional fee at the bottom of the bill that ranges anywhere from two to six percent of the check.

**Why:** Restaurants opted for to cover employer mandates in lieu of raising prices. This was done initially in response to San Francisco's Health Care Security Ordinance, which required an hourly spend per employee on health care. While controversial among consumers who were confused or frustrated by being asked to pay a perceived "tax," restaurants across the country are now adopting surcharges before raising prices.

### **The Return of the Prix-fixe**

**What:** A set multi-course menu daily/weekly at a fixed price; typically, beverage pairings can be added for an additional fee.

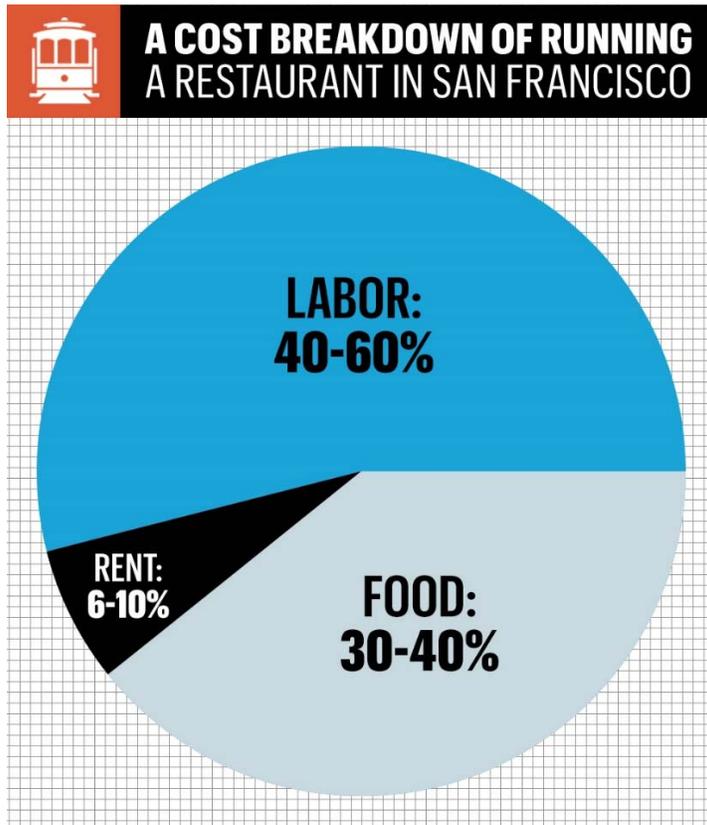
**Why:** Prix fixe menus focus on what's seasonal, available, and reasonably priced, allowing restaurants to control their food costs and cut waste.

### **All-inclusive pricing**

**What:** No tips; the menu price is comprehensive and includes service and sales tax.

**Why:** Early adopters of this practice were able to raise the pay of all their workers, and in some cases increase benefits, due to being able to manage all the revenue.

These solutions can cause sticker shock, though the amount you're likely spending isn't that much greater than before. What it really comes down to is this: We as a society have to choose what we value in our food. If we want our food hormone and GMO free, raised on sustainable farms served in restaurants that take care of employees, we should celebrate the advent of \$4 toast, which can easily cost \$6. As the minimum wage rises, health care for workers improves, and we serve better food, these prices won't just be in San Francisco, they'll be everywhere.



Michael Stillwell

**Labor:** For many working in restaurants, it's a vocation—particularly for cooks. You want to pay them well and keep them happy and healthy. Increases in the minimum wage, even when paying above it, do increase the wage scale in restaurants. Add in health care, paid sick leave, and any other benefits, and labor costs begin to creep up.

**Rent:** Most restaurateurs don't own their space, as buying is cost prohibitive, especially when commercial real estate rents rise. Additionally, more landlords are asking for a percentage of revenues on top of base rent.

**Food:** A restaurant committed to local sustainable agriculture works with smaller farms, changing what they serve on a daily or weekly basis due to availability. Costs can fluctuate depending on supply and demand, and small restaurants don't have the economy of scale to get the most competitive prices.