In January 2016, Seattle became one of the first jurisdictions in the nation to embrace a $13-an-hour minimum wage. Since its implementation, studies assessing the wage increase have come out, often using the restaurant industry as a primary example because of the high proportion of workers who are paid the minimum wage. Both positive and negative studies agree on this same conclusion: the increase in minimum wage impacts business.

UNDERSTANDING THE IMPACT

We spoke with RAM Restaurant Group’s Director of Marketing Technology, John, to learn just how impactful Seattle’s minimum wage increase has been for his business: “it has been pretty significant for our sector in particular and we’ve already gone through a couple iterations of our policy.”

As many restaurant operators know well, running a profitable restaurant starts with a math equation in which prime costs (food and labor) remain significantly below total profit. In looking at industry standards for table service restaurants, operators are likely to see labor costs between 30% – 35%, and food costs anywhere from 25% – 38% of revenue – depending on the restaurant concept and the mix of sales. These statistics suggest that restaurants should keep prime costs between 60% - 65% to see a bankable bottom line.

With the labor portion of prime costs increasing, RAM knew a price increase impacting guests was soon to follow - and consumers never like price increases! Already foreseeing the negative reactions. John came to Venga to understand the best method for implementing this change from the diner’s perspective.

EXPERIMENTAL POLICY CHANGES

In order to maintain profitable, The RAM team tried two different approaches in response to Seattle’s minimum wage increase. John recalls, “we started with adding a 19% gratuity charge to our checks. We called it a service charge, similar to other companies who adopted that format in Seattle. We also tried 5% cost of living adjustment.”

To cement RAM’s approach to labor cost increase, John couldn’t just rely on subjective opinion. He needed significant data from the most important source - diners. Before Venga, that meant John was losing a whole weekend of his time, “back in the day I’d have to go and search through our yelp profile and kinda comb through Google and Tripadvisor and everywhere I could… it was really clunky just using a spreadsheet”

MAKING INFORMED ADJUSTMENTS

Feeling the pressure, the RAM team needed to make a decision about how to move forward. What is the right format for this policy? Would an overall pricing increase be better from a reputation standpoint?

Venga’s Keyword Search feature for analyzing diner reviews was the right tool for John to inform the right policy adjustment: “I did a keyword search on 5% and found a bunch of examples of what people were saying and was able to quickly pass that onto our Sales and Branding Leader, as well as our CEO.”

After a thorough review, the RAM team moved forward with the 5% cost of living. By using Venga, RAM was empowered with direct feedback from guests to set a policy their customers could support. Because in the end, the diner’s perception is a restaurant’s reality.

Learn more about Venga