Tipping Point: How new legislation will impact hospitality

The report, commissioned by three rocks® , spoke to 2,500 hospitality businesses, staff and customers to gain their insight into UK tipping culture, the new government legislation, and shifts in trends in the UK towards a more American style of tipping.

Coming into effect on 1st October, the Employment (Allocation of Tips) Act 2023 will require hospitality businesses to distribute 100% of customer tips to staff, with no exceptions except for standard-rate tax deductions.

The study spoke to hospitality businesses of all sizes, from independent traders with 1-5 employees to national chains with locations across the UK.

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Main takeaways

This research showed the varying views and opinions around tips, especially between guests, team members and management. When and where tips should be paid, how they should be distributed and what they believe is fair, differ greatly. Each group has different priorities, which is shown in the varying opinions below.

GUESTS

- An overwhelming 73% of the 1,000 customers polled agreed that the creation of a Tipping Standard Practice, an official tip amount implemented 'across the board' for customers and a standard process for businesses to distribute tips to staff, was a good idea
- 59% of staff support the concept, with 27% saying it would make financial planning easier and a further fifth saying it would be a fairer system for everyone. An overwhelming 73% of the 1,000 customers polled agreed it was a good idea
- British consumers support this new American-style of tipping, with 73% believing people should tip when buying drinks at a bar and a third (34%) say bar staff should be tipped between 10%-20% for making their drinks
- 61% of Brits believe hospitality workers should get all of their tips without their employer taking a cut
- A further 41% would increase their tips if they knew staff were getting 100% of the money while 1 in 10 believe tips should be abolished completely with employers expected to pay more to support their staff

TEAM

- Despite the new Act coming into effect later this year, less than half (42%) of hospitality workers have been told about their employer's tipping procedures, which equates to 756,000 employees across the UK*, based on the latest government figures
- When asked whether they were happy with how tips are distributed to staff, more than a third (37%) of staff said they were unsure but felt they should get more tips
- More than half (59%) of hospitality workers would consider the introduction of a Tipping Standard Practice as an alternative fairer, more transparent system, with 27% saying it would make financial planning easier and a further fifth saying it would be a fairer system for everyone.

Main takeaways

MANAGEMENT

- Hospitality claims that new Employment (Allocation of Tips) Act 2023, coming into force in October, will incur hefty costs, study finds
- Nearly a fifth of hospitality businesses, equivalent to 25,740 operators across the UK, could see costs increase by between £60,000 to £360,000 a year due to new legislation
- Just 28% of hospitality companies are currently compliant with the new Act, equating to more than 90,000 businesses which now need to change the way in which they operate*
- Nearly half (44%) of operators would consider the introduction of a Tipping Standard Practice as an alternative fairer, more transparent system
- Despite hospitality closures slowing, these findings come at a worrying time for the industry, with more than 4 hospitality businesses closing in Britain every day so far in 2024, according to data from CGA by NIQ and AlixPartners
- Nearly three quarters (74%) of UK restaurants, pubs and bars are already adding, or plan to add a service charge for pouring a pint or preparing a cocktail, pushing the average price of a pint to over £5

Sources:

The study spoke to hospitality businesses of all sizes, from independent traders with 1-5 employees to national chains with locations across the UK.

*https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/czms/mm23 - Average cost of a pint in the UK as of March 2024: £4.71

**https://www.numbeo.com/cost-of-living/ - As of November 2023

Scott Muncaster, MD, said: "At three rocks, we don't claim to have the answers on how restaurants, their employees and their customers can all be served by a 'right' way of handling tips. We don't think there IS a single set of answers that applies to all restaurants, all teams, all customers."

We DO, however, believe that those who deliver the best experiences for their customers, staff and shareholders will do four things:

1 They'll consider and consult on all points of view – business, staff, guest.

2 They'll be transparent – everyone involved will know what happens when a tip is given.

3 They'll track the impact closely – on sales, profit, employee wellbeing, retention, guest satisfaction, reputation...

4 They'll learn lessons and make course-corrections based on data, not noise.

Our XMS solutions enhance guest, team and management experiences. We offer solutions that can be configured (and changed) to reflect the way your business needs to run – whether that's booking, ordering, managing the kitchen and stock – or payment, including tip management. And we provide the data tools and reporting so you can test and learn as you try new ideas and subtle changes to drive sales, innovate on menu and service – or get your tipping processes right for your customers, team and business.

SMANDYS *restaurant*
Leave a tip?

| 10% | 15% | 20% |

Other: | Pay
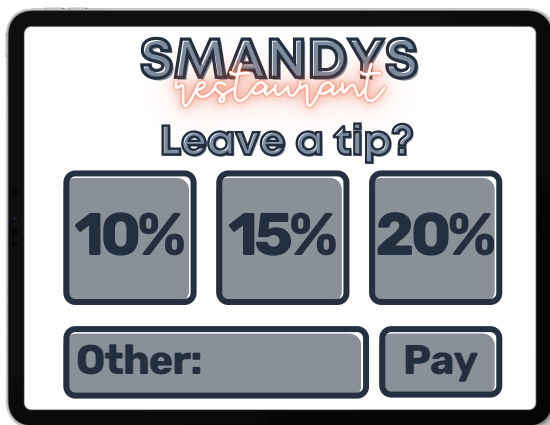
Matt Rawlins, CTO, said "Using tech that puts the ordering into customers hand reduces any order errors while also freeing up the team to be more attentive and give the extra service that enhances the customer experience and increases the likelihood of tips. Tables turn faster meaning more guests, more tips AND increased spending from customers, boosting bill and tip amounts."

Summary

It is clear that tipping as it is done today is an emotive and potentially divisive topic. There are wide-ranging views in each group we surveyed, but overall:

Customers want to tip good service and believe all tips should be 100% retained by employees, either the person who served them or shared between the team.

- Employees feeling tipping is inconsistent and managed unfairly.
- Employers want to, at a minimum, recover the costs of processing tips and have different views on what fair distribution of tips should be.

The legislation seeks to address the inconsistency of businesses retaining part of the tip pot – either to recover card fees and handling costs or to add to profits.

It requires businesses – including those who employee agency staff for restaurants – to publish a clear policy on how tips are fairly distributed, and offers guidance and warnings on what could be considered when creating this 'fairness' policy, but stops short of mandating what this should be.

Tipping will not fix itself because it has long-standing and complicated challenges. The legislative changes to improve the fairness of tip handling and distribution is a good thing. But it could, in the short-term, create new problems such as:

Restaurant owners try to recover and losses through changes like price increases or the introduction of other surcharges on the bill such as 'Brand charges'. Some may ban tipping altogether, promising a balancing pay increase for staff to make up for lost tips.

Employees are consulted on 'fair' distribution of tips – this will vary by restaurant type and staff roles – but debate could be hard to resolve without there being winners and losers between management and team, front- and back-of-house, experienced versus new or temporary team etc.

Guest are confused by the new charges they see, the different interpretations of 'fair' that they hear about – and doubts about what should be tipped and how much continue.
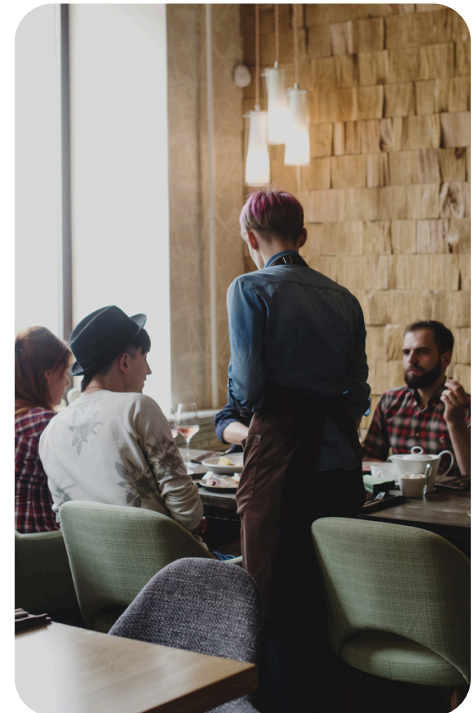
Anything that can create confusion or bad feeling has the potential to harm an industry that already has a lot to deal with.

Getting this wrong could hurt restaurant profitability, staff wellbeing (and retention) and customer satisfaction and trust. Having this land in the run up to Christmas heightens the risk.

While there is not a standard tipping practice in the UK, whatever you decide is the best solution for your business alongside implementing the new legislation, three rocks® can help you. Their XMS solution manages and enhances the experiences of guests, team and management. The system is made bespoke for your business depending on your requirements. So how you decide to manage tips in your business can be easily managed through XMS, tailored to your requirements. Get in touch to find out more.

CONTACT US

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About three rocks

three rocks is a people-first tech company specialising in creating solutions that enhance experiences, working with some of the UK's largest restaurant brands such as Pizza Hut, TGI Fridays and The Big Table Group. Beyond hospitality, the company works with B2B clients across a multitude of sectors including wholesale, publishing and Internet of Things solutions.

The **three rocks** team have a vast background in designing bespoke technology solutions driven by data collection and analysis which transform businesses by enhancing customer, employee, and user experience.

The brand was created in 2023 when Adactus and Six Sevens, long-term hospitality technology providers, merged to form **three rocks.** The company is on a mission to bring transformative end-to-end experience enhancement software and data-led solutions to the hospitality and wider business sector.

From reservation and ordering systems to post-visit CRM systems, **three rocks** has the in-house skills and team capacity to develop best-in-breed solutions, starting with its new flagship product, **three rocks® XMS**.

three rocks XMS is a totally modular experience management system which enables businesses to create a tailored CX tech stack to match their individual business needs. XMS offers businesses a pick and mix of cutting-edge technology including digital booking systems, self-service kiosks, restaurant order management solutions, and CRM and data analysis processes. Businesses benefit from a tailored suite of products that match their needs and budgets, and transform customer service, experience, and company growth. XMS is also flexible and can be tailored to suit any industry.

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