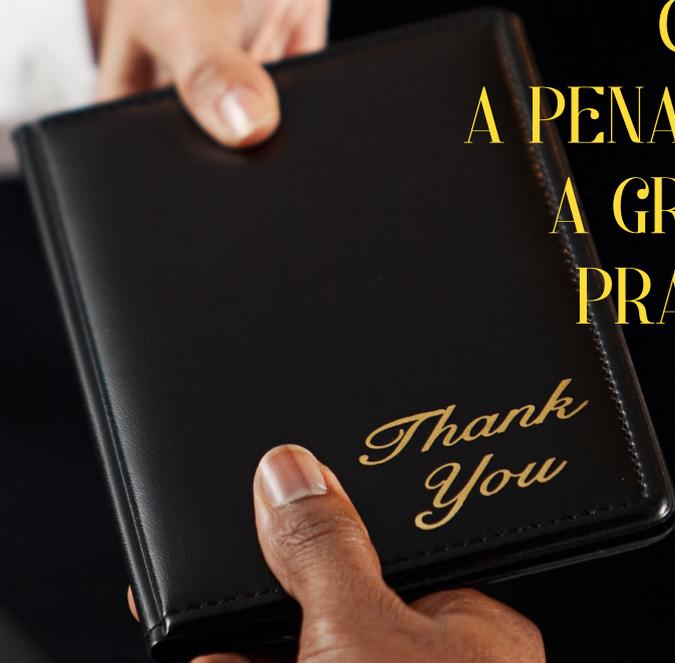


# TIPPING POINT

IS SERVICE  
CHARGE  
A PENALTY OR  
A GRACIOUS  
PRACTICE?



**CAROL GOYAL**  
Director, Everest



Tipping has been in the news of late. Earlier in the week, **Consumer Affairs Secretary Rohit Kumar Singh** red-flagged an issue many have been hassled about but did not know who to raise it with: **the issue of tipping.**



A once voluntary practice, once seen as a **gratuity for satisfactory or good customer service**, has now become almost a **compulsory add-on** to the food bill in most restaurants today with **no correlation to service** and no element of discretion. It is almost as if there is a food bill for what is prepared in the kitchen, and there is an additional payment being charged for the food to be served to the table.



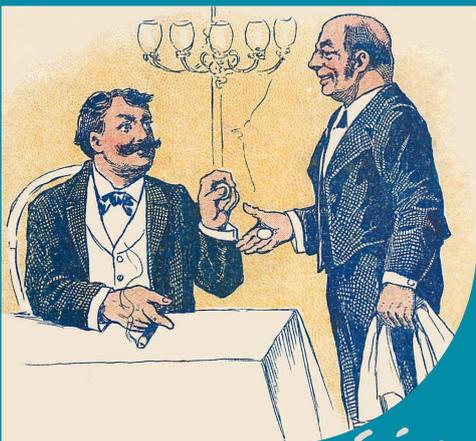
**Rohit Kumar Singh**  
*Consumer Affairs Secretary*

The **Hon'ble Secretary's letter** is actually candid. In the letter, he points out that **consumers are forced to pay service charge**, often fixed at arbitrarily high rates by restaurants. Consumers are also being falsely misled on the legality of such charges and are harassed by restaurants when they make a request to remove such charges from the bill amount. He goes on to add, **"Since this issue impacts consumers at large on a daily basis and has significant ramification on the rights of consumers, the department construed it necessary to examine it with closer scrutiny and detail."**

Incensed by the Secretary's scathing comments, **NRAI (National Restaurant Association of India)** have come back quite strongly on the issue of service charges. It has said that there is no illegality in levying service charge. **"Information regarding the amount of service charge is mentioned/displayed by restaurants on their menu cards and also otherwise displayed on the premises, so that customers are well aware of this charge before availing the services."** It added, **"Once the customer is made aware of such a charge in advance and then decides to place the order, it becomes an agreement between the parties, and is not an unfair trade practice. GST is also paid on the said charge to the government."**



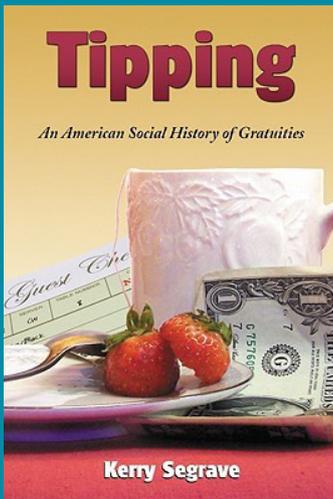
# SO HOW DID THIS CUSTOM OF TIPPING START?



There is no agreement on just how the practice of tipping started. Some theories suggest that tipping dates as far back as the **Roman era** and is probably **even older**. Others claim that tipping may have begun in the **late Middle Ages** when a master or lord of the manor could give a **little extra money** to a servant or labourer, whether from appreciation of a **good deed** or from compassion. Literature also attributes the **tipping origins to 16th century England**, where brass urns with the inscription **"To Insure Promptitude"** were placed first in coffeehouses and later in local pubs. People tipped in advance in order to get good service by putting money in these urns. Indeed, the word "tip" seems to come from the first three letters of **"To Insure Promptitude,"** but others have different stories to tell. The word "tip" may well have come from stipend, a version of the Latin **"stips."** It seems that Europe exported the practice of tipping to the United States, when high-income Americans who traveled in Europe in the **19th century** started tipping upon their return to the United States, to show that they had been abroad and were familiar with the **European customs**.



Kerry Segrave



Kerry Segrave, the author of **Tipping: An American History of Social Gratuities (1998)**, reflects upon the origin of tipping in the late Middle Ages in London and observes that “**by 1760, footmen, valets, and gentleman’s servants all expected vails (a small amount of money given to the servants for working beyond their original duties), leading to great expense to the guests. The gentry and aristocracy began to complain. An attempt to abolish vails in London in 1764 led to rioting.**” With the passage of time, the culture of tipping became an integral part of the English culture and it spread across hotels, pubs and restaurants.

The system of tipping came into prominence in **India** with the arrival of the **British**. Usually called **baksheesh**, the culture of tipping the **restaurant workers, hotel staffs, chauffeurs and housekeeping staff** is now pretty common across the country. But baksheesh has always traditionally been seen as a pat on the back, not a matter of right. But in the modern Western driven culture, tipping is almost a **matter of right**, and not tipping is seen to be bad etiquette.



## TIPPING TALES

ADVANCE TIPPING,  
PUNJABI-STYLE

At most Punjabi weddings in North India, you will find a large family taking over a few tables and monopolizing them. The head of the family will beckon a server, slip him a 500-rupee note or two depending on the scale of the wedding, with an **“Ethe service lagataar honi chahidi hai...”** For the rest of the evening, the family is plied with snacks, regularly and unfailingly.



# HOW MUCH TIP IS A GOOD TIP, BUDDY?



By **1895**, the average tip in **European** restaurants was **5 percent** of the bill, while in the **United States** a common tip was **10 percent**. The large extent of tipping gave some tipped employees relatively high income, and employers both in Europe and the United States sometimes tried to take these economic rents from the workers either by taking the tips, or by charging employees for the right to work and earn tips.

By the early **20th century**, even though the tipping custom had only just arrived in the United States, there were already attempts to abolish it. Some saw tipping as creating a servants' class, part of a society where the tippers looked down upon the service providers. They called tipping offensively un-American, because it was contrary to the spirit of American life of working for wages rather than fawning for favors. Some states passed laws against tipping, starting with **Washington** in **1909**, but these laws were repealed after several years. Over the years, the percentage tipped in the United States has gradually risen. The 10 percent tipping norm in restaurants in the late 19th century stayed for several decades, but eventually increased to **15 percent**. So it wasn't really long ago that 15 percent of the bill, excluding tax, was considered a generous tip in elegant restaurants. Now the figure is moving toward **20 percent** for excellent service. In ordinary family-style restaurants, 15 percent is still the norm.

# +20%



Today, some travel guides refer to **15-25 percent** as a tipping standard in restaurants (typical **Lonely Planet** guidance). A similar pattern of increasing tip percentages is observed in **taxi tipping**, starting with **10 percent** early in the **20th century**, rising mid-century to **15 percent**, and then, by the end of the 20th century, reaching **20 percent** in large cities. Today, tipping norms differ around the globe. Tourist guidebooks often provide advice about the tipping norms in the country. **In Europe**, where tipping originated and was already common hundreds of years ago, **tipping is generally less common** and in much smaller magnitudes than in the United States. In many European restaurants, tipping takes the form of rounding up the restaurant bill a little, not adding 15–20 percent to the bill.

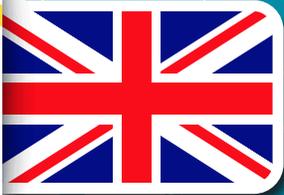


# WHY DO PEOPLE TIP?



It is extremely difficult to explain tipping behavior from the perspective of a purely self-interested consumer. After all, a tip is usually given after the service has been provided. One can make a theoretical argument that if the **self-interested consumer** is in a repeated relationship with a seller, for a good or service where qualities controlled by the seller matter, then the consumer could have an **economic motivation** to tip. However, this motivation for tipping is irrelevant for customers without intentions to return to the same service provider. In a big city, for example, you are unlikely to meet the same taxi driver in the future—and even if you did, the driver is unlikely to recognize you and adjust the quality of service to your tip a couple of years ago. People also tip in restaurants or hotels when they travel and do not plan to go back to the same places. This already suggests that for many tippers (those who are one-time customers), future service is not a reason for tipping. Instead, **psychological** and **social motivations** seem more **plausible reasons for tipping**.

## TIPPING TALES

PURA LONDON  
THUMAKDA

One of India's leading CEOs had his own tipping hack whenever he visited London. On checking in at the hotel, he would tip the concierge **100 pounds**, and then proffer his wish-list – whether it was tickets to the **cricket at Lord's**, or **tennis at Wimbledon's** central court, or to the theatre... The sum was good enough for the concierge to move heaven and earth and ensure the best seats available.



# STRAW POLL BY THE RED LAB TEAM



The Red Lab consumer insights team at **Rediffusion/ Everest** ran a quick check on tipping motivations using the **OH Azar Model** of 2010:



	Reasons for tipping	Percentage
1	Avoid feeling guilty	27
2	Avoid embarrassment	21
3	Tipping being a social norm	72
4	Show gratitude	86
5	Waiters need the tips	36
6	Get poor future service if I don't tip	12
7	They waiter may yell at me if I don't tip	4

The sample size wasn't very large – **147 respondents**, almost equally male and female in Mumbai. But one can be reasonably sure that the feedback may not have been very different in a larger sample or larger geography.

# 81%

There was the last very important question that all respondents were asked that was the real clincher: fixed service charge or a discretionary tip – which do you prefer? An overwhelming 81% said they would prefer to tip rather than be subjected to a fixed charge. **“By tipping I can show the waiter my gratitude for service,”** was the near universal refrain.



This is not surprising. In the original **Azar study**, conducted in **2010**, the feedback was not very different. Respondents, in the research, reported a high sensitivity for their tips to service quality, suggesting that they want to be able to control what they pay for the service, according to the actual service they receive. When asked for the reasons they tipped more for better service, the majority of respondents reported that it is **fairer** that tips will depend on service, and that they want to show their **gratitude** in proportion to how **grateful** they actually are. These responses can explain why tipping is preferred to service charges that do not depend on service quality. Customers prefer the control of choosing a tip and have a positive feeling that they are showing generosity.



In a straw poll conducted by consumer insights think tank Red Lab, an overwhelming **81%** respondents said they would prefer to tip rather than be subjected to a fixed charge. **86%** tip to show gratitude.



# LEGAL OR NOT: THE CONTINUING DEBATE

At the time of getting into print, the **Consumer Affairs Secretary**, in a letter to restaurant associations, has communicated that a compulsory service charge without “**express consent of the consumer**” constitutes an unfair trade practice and is illegal.

Restauranteurs, on the other hand, maintain that the charge is not illegal and are contemplating a legal battle on the issue.

In the current **debate on tipping in India**, both sides may have valid arguments. But if the consumer is to be given an ear, a restaurant imposed service charge is a **no-no for sure**.



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