PRIDESTAFF®

Are Low Pay Rates Costing You?

Many employers attempt to control costs by keeping pay rates low, but underpaying employees can actually be harder on the bottom line than overpaying them.

In this eBook, you will learn:

- **How low pay rates impact employee productivity.**
- **The direct correlation between turnover and low pay rates.**
- **How to determine whether low pay rates are costing you more.**

READY TO **GET STARTED?**

HIGH PAY OUTPERFORMS LOW PAY

Sam's Club generated $37 billion in revenue in 2017 and Costco generated $43 billion. However, Costco did it with 38 percent fewer employees. ***Their stable and productive workforce offset the costs of higher wages by generating $21,805 in operating profit per hourly employee compared to just $11,615 at Sam's Club.***

A TALE OF TWO PAY SCALES

Costco and Sam's Club are the number one and number two warehouse retailers in the U.S., respectively. They run similar businesses overall, but they have one remarkable difference: Hourly pay scale.

Costco, the reigning top warehouse retailer, pays an average wage of $17 per hour. Sam's Club pays a much lower rate of around $12 per hour.

Costco's practices are far more expensive, but they experience 17 percent turnover overall, and just 6 percent turnover after one year of employment. Sam's Club, however, suffers from a 44 percent overall turnover rate. According to estimates by the Harvard Business Review, the total cost of turnover to Costco is $244 million annually, compared to $612 million annually for Sam's Club.

LOW-PAID EMPLOYEES ARE RESENTFUL EMPLOYEES

We've seen evidence that lower pay results in lower productivity and profitability, but why? Shouldn't everyone show up to work and do their best regardless of their pay rate?

In theory, yes. But when employees believe they are being underpaid, they get angry and resentful. As those negative feelings grow, their workplace relationships suffer – especially relationships with supervisors.

Angry and resentful employees:

- Will not go above and beyond tasks in their job descriptions
- Will not be as willing to pitch in and help other members of the team
- Tend to exhibit a bad attitude in the workplace
- Produce less and take more days off than employees who don't feel underpaid
- May be more inclined to engage in disgruntled behavior

LOW-PAID EMPLOYEES EXPERIENCE HIGHER STRESS LEVELS

Employees have financial obligations and when they are barely making ends meet, it creates extreme stress – especially for workers who have children to raise. Workers who are constantly worried about how they will keep the lights on and food on the table will not be focused on the job.

Think stress doesn't impact your bottom line? **Think again.**

- One million U.S. workers call off work every day due to stress.
- One call off costs an employer an average of $600 per day.
- Stressed-out employees incur healthcare costs 46 percent higher than non-stressed employees.
- Employees who come to work and underperform cost $150 billion per year in lost productivity.

LOW PAY = HIGH TURNOVER

Ultimately, the biggest price employers pay for offering low rates is turnover.

Businesses that pay minimum wage suffer from the highest turnover, ranging from 50 to 200 percent annually. If a company experiences 100 percent turnover, they are hiring two people for every one job per year.

Even if jobs pay over minimum wage but still fall outside the local market's salary range for a position, the company will experience turnover. Talented people will not settle for being undervalued, and they do not have to. Even in a down market, great people can find higher-paying jobs . . . and they will.

THE TANGIBLE COST OF TURNOVER

It's difficult to get accurate numbers on the hard costs associated with turnover, but the Society for Human Resource Management (SHRM) estimates it can cost anywhere from six to nine months of a position's salary to replace an employee.

Losing one or two employees per year isn't that expensive, but if you're losing several employees every month, those costs skyrocket.

SIGNS YOUR PAY RATE IS TOO LOW

Figuring out pay rates in your market should be relatively easy, thanks to online tools like PrideStaff's Compensation Portal.

If you find it difficult to uncover market rates, there are some important indicators you might be paying lower salaries than your competitors:

- Your applicants are almost always underqualified.
- Highly qualified applicants disappear after they find out what you're paying.
- You experience a high number of first day no-call no-shows.
- You have a high number of employees who quit after a few days.
- Well-performing employees quit without much warning.

The quality of your applicant pool and your ability to recruit future talent depends greatly on your pay rates. Once you earn a reputation for paying low wages, it can be impossible to recruit reliable, talented people.

THE INDIRECT COST OF REPLACING AN EMPLOYEE

Those hard costs of turnover account only for the money spent on recruiting and training new employees. They do not consider the additional (and significant) indirect costs that include:

- ***Lost productivity.*** Odds are high the employees who leave were not working at top capacity. New hires can take weeks or months to ramp up as well, prolonging underproduction.
- ***Increased overtime.*** Empty positions mean overtime for existing employees if those positions go unfilled for long periods of time.
- ***Mistakes.*** New employees make mistakes. A revolving door of new employees leads to a cycle of errors and mistakes that are costly to correct.
- ***Customer service issues.*** Inconsistency in staff leads to poor customer experience. When customers aren't receiving the level of service they expect, the business must often eat costs, or worse, lose the customer entirely.
- ***Accidents.*** New employees are more prone to having, or causing, workplace accidents while they ramp up.
- ***Additional turnover.*** Employees who must take on additional work and feel overextended when someone leaves the team, can quickly become dissatisfied. Turnover breeds more turnover, and an increase in bad hires over time.

HOW TO CALCULATE LOW-PAY-RELATED TURNOVER COSTS

So, just how much could low pay rates be costing you?

You can calculate the impact pay-related turnover is having on your business by considering:

- Total budget for hiring new employees.
- Total budget for hiring temporary workers to fill vacancies.
- Total overtime costs associated with being understaffed.
- Total employee training budget – include hourly costs of any employees assisting new hires.
- The time it takes a new hire to reach maximum productivity. E.g.: If it takes three months, the cost is 25 percent of their annual pay.
- How many bad hires have you made? Take the number of new employees who left within one year divided by your total number of employees.

Add everything and compare it to the costs associated with offering a more competitive pay rate. Most companies discover it actually costs less to bump pay rates up than to offer low rates.

ARE YOU READY TO GET **MORE COMPETITVE?**

If you discover you're paying a low pay rate and it's costing you talent and leading to higher turnover and lower-quality applicants, talk to the strategic staffing experts at PrideStaff.

PrideStaff takes the guesswork and risk out of hiring, identifying candidates with the personality traits, validated performance and soft skills needed to thrive in your culture, long term.

To ensure your compensation is competitive, PrideStaff offers free market- and position-specific salary data through our Compensation Portal. Don't lose more good talent, visit today! www.pridestaff.com/comp-portal

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