

A hand in a blue sleeve points towards the right. In the background, there is a bar chart with an upward-pointing arrow and the number '+489,656'. The chart has seven bars of increasing height. The background also features a world map, several dollar signs, and binary code (0s and 1s).

Under Pressure: Are You Providing the Wages Candidates Expect?



THE POLITICAL, SOCIAL AND ECONOMIC CLIMATE HAS A BIG IMPACT ON YOUR WORKPLACE.

Businesses are experiencing a perfect storm of rising payroll, political pressure to increase minimum wages at the local, state and federal levels, increasing healthcare costs, increasing regulatory burdens and sustained periods of low productivity, which all spell one thing: **Wage Pressure.**

If it is not already facing wage pressure, your organization may soon face a challenge. Paying employees and candidates what they expect in today's market can spell financial disaster if you aren't prepared. Even if your state or local government does not mandate wage increases, candidates and employees will demand alignment with their counterparts across the country.

Failure to step up and pay out could cost you talent and impact your business.

Are you prepared to survive wage pressure?



#FIGHTFOR15 AND THE MINIMUM WAGE HIKE

There has been a huge push to increase the minimum wage in recent years, led by the movement known as #FightFor15 – as in \$15 per hour.

There has been pushback from both sides of the aisle and from companies of all sizes, but the climate is shifting, and one major political party voted a \$15 national minimum wage plank in its platform in 2016.¹

Forward-looking companies are watching the changing tide and are getting out in front of a mandated raise by “self-imposing” higher wages on themselves:

- Companies like Starbucks have increased base pay of store employees by 5%, twice the rate of median U.S. wage growth between 2014-2015.
- JPMorgan raised hourly wages for 18,000 lower-end positions from \$10.15 to between \$12 and \$16.50.
- Wal-Mart increased its hourly starting wage by 24%.

Organizations like these are attempting to ride the wave of the social atmosphere, but they also understand that increasing wages helps to attract talent and retain the talent they have cultivated over the years.

¹ <http://fightfor15.org/democratic-party-adopts-15-national-minimum-wage-to-party-platform/>



WHEN WAGE HIKES ATTACK (JOBS)

For every feel-good story about an hourly wage rising, there are, of course, stories with less-than-happy endings:

- Wendy's has announced it will roll out self-service kiosks to replace cashiers in response to mandated wage hikes.
- Small businesses in Seattle closed at a higher-than-average rate after the city raised the mandatory minimum wage in 2014.²
- Economists predict that low-paying jobs will go off the books in the face of mandated wage hikes, and will be used to further exploit the immigrant workforce.³
- Small business must raise the price of goods and services in order to keep up with wage pressure, impacting customers' ability and desire to buy.⁴
- Companies eliminate jobs and require more of each retained worker.⁵

So if some businesses are embracing higher wages with seemingly no impact, and other businesses are cutting jobs to retain profits or shuttering, what are the factors that lead to success or failure under wage pressure?

² <http://www.forbes.com/sites/timworstall/2015/03/16/we-are-seeing-the-effects-of-seattles-15-an-hour-minimum-wage/#21dc4b19715a>

³ <http://www.latimes.com/business/la-fi-minimum-wage-impacts-20160421-snap.htmlstory.html>

⁴ <http://www.chicagonow.com/city-limits/2016/07/chicago-minimum-wage-hike-hitting-small-business-owners/>

⁵ <http://www.seattletimes.com/opinion/guest-how-businesses-will-respond-to-15-minimum-wage/>



TAKING THE ECONOMIC TEMPERATURE

When the right conditions are present, rising wages can be offset by an increase in productivity. Businesses pay out more, but they get more back from their customers, leaving profits intact. Companies saw this in the recovery of the recession in the 1990s, and it helped fuel the rise of dot-coms.

However, rising wages that are not offset by productivity can spell trouble, and this is the landscape U.S. companies are facing today. In 2014, productivity only rose by 0.7%, with wages rising at nearly twice the pace.⁶

In fact, the U.S. GDP growth rate hasn't hit 3% in ten years⁷ – a number that does not align with the increase in the U.S. population over that time. The climate today is not the climate of the 1990s, which means more companies could have trouble navigating wage pressure.

⁶ <http://www.barrons.com/articles/rising-wages-will-pressure-corporate-profits-1466226807>

⁷ <http://www.cnsnews.com/news/article/terence-p-jeffrey/us-has-record-10th-straight-year-without-3-growth-gdp>



WHO WILL SUCCEED AND WHO WILL STRUGGLE?

Predicting an organization's ability to weather the wage pressure storm is not an exact science, but it can be hinged on three traits:

1. **COMPANIES WITH HIGH LABOR INTENSITY:** These are organizations that post low revenue per employee. These companies will be vulnerable when facing wage pressure.
2. **COMPANIES WITH LOW NET INCOME MARGINS:** This is a sign of weak pricing power, and these organizations will be impacted more negatively by wage pressure than their counterparts with high margins.
3. **SMALL BUSINESS:** Companies that are unable to scale in order to retain costs will be vulnerable to rising wages.

Small and medium-sized companies will feel the pinch more than large organizations. As healthcare costs, housing costs and taxes continue to rise, consumers have less discretionary income. In the B2B realm, the same is true. Rising costs and an increasing regulatory burden means that every single dollar spent must be justified and must show return, creating a struggle for SMBs.

HOW TO SURVIVE RISING WAGES – EXTERNAL STRATEGIES

There is no way to predict how high wages will climb, but it is undeniable that they are on the rise. And despite the burden it places on the organization, most business leaders agree that paying talented, valuable employees what they are worth is just good business.

There are a number of ways companies can remain profitable from both external and internal perspectives. Before you decide to lay off any staff, consider these strategies:

- **RAISE PRICES:** This takes a great deal of research and finesse. You must know what the market can bear and what your unique customer base is willing to absorb.
- **GET A NEW ACCOUNTING FIRM:** Find a team that can help you save money on local, state and federal taxes. This “found” money can be reinvested into wages.
- **RETHINK BUSINESS HOURS:** Closing the office early one day a week or adopting flex time can save money on utilities. If you run a customer-facing business, make sure your hours are optimized so you aren’t overstaffed during slow hours.
- **ADOPT A WELLNESS PLAN:** Healthcare premiums are on the rise. Wellness plans that improve health can reduce spending and boost employee morale.⁸
- **REVIEW VENDOR CONTRACTS:** This year, sit down and review every single vendor contract you have, and start shopping those contracts to save money.

⁸ <https://hbr.org/2016/04/meet-the-wellness-programs-that-save-companies-money>



HOW TO SURVIVE RISING WAGES – INTERNAL STRATEGIES

This is the part no one likes to think about. What do you do with your workforce in the face of increased wages? You may think your options are limited to layoffs or wage freezes, but that's simply not the case. You can get creative with your strategies and consider:

- **JOB SHARING:** You may have employees who are willing to move from full-time to part-time hours, and share their responsibilities with someone else.
- **ELIMINATE OVERTIME:** Some employees like overtime, but it can lead to burnout. Eliminating overtime can increase productivity and help keep salary budgets in line.
- **OFFER EARLY RETIREMENT:** Ask for volunteers to take early retirement. You may have to pay out a bit in incentives, so work with your accountants to ensure you're saving more than you are giving.
- **OFFER FOUR-DAY WORK WEEKS:** Ask for volunteers before making any cuts. You may be surprised how many people are willing to go for it.
- **CLOSE DURING SLOW TIMES:** If your entire office twiddles its thumbs between December 20 and January 2, consider closing during that time.
- **WORK WITH TEMPS AND CONTRACTORS:** If you've got a big contract coming in, hiring permanent full-time staff may not be the best tactic. Temps and contract employees can help manage workflow at a lower net cost.

DON'T CHOOSE BETWEEN TALENT AND PROFITS

Your business can meet wage pressure and keep talented people and continue to attract talented candidates – all while maintaining profitability. But only if you are prepared.

If you are concerned about wage pressure, it helps to work with an expert in staffing and workforce solutions to help you build a long-term strategy that ensures success and guarantees you always have access to the talented people you need to maintain productivity.

The expert recruiters at PrideStaff can keep you focused on what truly matters. We will work closely with you to understand your real workforce needs as well as your company culture to ensure the strongest candidate match.

Together we can create a strategy for you that will:

- Reduce personnel expenses
- Reduce unemployment liability
- Control benefit costs
- Meet project deadlines
- Minimize employment risks
- Manage resource constraints
- Stay focused on top priorities
- Avoid hiring mistakes
- Reduce turnover
- Improve morale
- Improve profitability

If you are ready to learn more about the ways in which PrideStaff can help your organization weather wage pressure, contact us today.





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