

Minimum Wage

Some Small Business Owners Say Paying Workers More Helps Everyone

It may seem counterintuitive, but many small business owners not only support raising the minimum wage but have voluntarily increased the floor wage they pay their employees, several business owners and worker advocates told Bloomberg BNA.

In explaining why they decided to pay their workers more than the government mandates and probably more than their competitors do, the business owners cited concern for their employees' well-being, the need to attract higher-caliber workers and a sense of social responsibility. Many of these businesses owners mentioned valuing their employees, either because of personal relationships or because of their employees' special expertise.

For example, Rachael Solem, the owner and general manager of two guest houses in Cambridge, Mass., said she knows and cares about her workers. "I have to pay them well enough so they can afford to make a life," she said. "These people have aspirations. They're putting kids through college. They want to buy a house."

Solem also spoke of the larger societal implications of wage rates. "There are patriotic and moral questions that companies have to ask themselves," she said. "Companies need to understand that if they're not paying their employees well, the government has to pick up the tab because people have to live."

Movement Gains Momentum. The movement to increase the minimum wage gained momentum in January when President Barack Obama expressed support for raising the federal minimum wage to \$10.10 from \$7.25 per hour and issued an executive order mandating a \$10.10 minimum wage for workers under new federal contracts (19 DLR A-15, 1/29/14; 18 DLR AA-1, 1/28/14).

By Aug. 1, 23 states and the District of Columbia had enacted minimum wages higher than the federal one, according to the National Conference of State Legislatures.

Business For a Fair Minimum Wage, a network of business owners and executives who advocate for a higher minimum wage, said 1,000 business owners and organizations have signed its petition calling for an increase in the federal minimum wage to at least \$10.10

per hour over three years, with annual cost-of-living adjustments thereafter.

The group released a report July 10 showing that 61 percent of 555 small business employers surveyed support increasing the federal minimum wage to \$10.10 per hour over two and one-half years and then adjusting it annually to keep pace with inflation. Fifty-six percent of the employers polled said they believe a raise in the minimum wage would help the economy, and 53 percent said a higher minimum wage would benefit businesses by reducing employee turnover and increasing customer satisfaction.

An increase in the minimum wage would benefit many workers but could reduce jobs overall.

"There are patriotic and moral questions that companies have to ask themselves," said Rachael Solem, the owner and general manager of two guest houses in Cambridge, Mass. "Companies need to understand that if they're not paying their employees well, the government has to pick up the tab because people have to live."

The Labor Department's Bureau of Labor Statistics earlier this year reported that 4.3 percent of workers earned the minimum wage in 2013, and the Brookings Institution concluded that a federal minimum wage increase would raise the wages of roughly 35 million workers who earn just above the minimum (16 DLR A-8, 1/24/14).

Cause Loss of Jobs? However, a Congressional Budget Office report concluded approximately 500,000 jobs would be eliminated if the federal minimum wage goes up to \$10.10 (32 DLR AA-1, 2/18/14).

The U.S. Chamber of Commerce and the National Federation of Independent Business oppose an increase in the minimum wage.

"Our members have consistently said they don't want an increase in the minimum wage. Somebody will have to pay for it," NFIB senior media manager Eric Reller

said Aug. 14. If the minimum wage increases, businesses will have to lay off employees, and customers will have to pay higher prices, he predicted.

The advantages of increasing wages “far exceed any downside,” Professor Arne L. Kalleberg told Bloomberg BNA Aug. 4. “Putting more money in the hands of workers will give them more purchasing power,” which in turn “will increase demand” for goods and services and therefore help businesses, said Kalleberg, who teaches at the University of North Carolina at Chapel Hill and specializes in the sociology of work.

“There is very little evidence to support the view that increasing the minimum wage is going to result in a large reduction in employment,” Kalleberg said. “That’s a myth. . . . It’s an argument used by people who just don’t want to raise the minimum wage.”

Paying More Is Workable Business Model. Solem, the owner of Irving House and Harding House in Cambridge, said paying higher wages “is a business model that can work.” In conversations Aug. 5 and 6, she told Bloomberg BNA, “I can stay profitable and still pay people a living wage.” She said, “It’s looking at it backwards to pay people as little as you can.”

Solem employs 50 people for her 70 restored Victorian guest rooms near Harvard University. The employees, mostly housekeepers and maintenance workers, start at \$11 per hour and receive a raise after three months. Within a year, they’re earning \$13.50 per hour, according to Solem. Some of the housekeepers earn \$17.50 per hour and receive health benefits, a retirement plan and bonuses.

“If I want to keep them, I have to pay them enough,” Solem said, adding that many of the housekeepers have been with her for 15 years. “Hiring and training is time-consuming,” she said.

The guest houses lack elevators and gyms and other amenities found at most large modern hotels, so Solem strives to give her guests individual attention and good service. The higher wages motivate her staff to perform better, she said. “We very often get comments about how attentive our staff is. I think that’s what makes the difference,” she said.

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Lew Prince, owner of Vintage Vinyl.

As for the increase in labor costs, “We just absorb it. It’s less profit,” she said. Solem is able to charge fairly

high room rates because her guest houses are located in the “rarefied atmosphere” of Harvard Square, but her rates are competitive with nearby establishments, she said.

To offset the payroll costs, she tries to reduce expenses by conserving water, electricity and natural gas. “We also reduce our waste stream by recycling and composting,” Solem said. “We’re keeping costs down in other areas as payroll goes up.”

‘Not Enough to Live On.’ Lew Prince, the co-owner and managing partner of Vintage Vinyl in St. Louis, echoed Solem’s sentiments. Prince told Bloomberg BNA July 31 he pays more than minimum wage because “it became clear that the minimum wage wasn’t enough for people to live on.”

Vintage Vinyl, which Prince describes as the largest independent music store in the Midwest, operates from a 7,500-square-foot building that used to be a movie theater. The store buys and sells vinyl records, CDs and DVDs and has been in business 35 years.

Each of the store’s 12 full-time employees earns well over \$10 per hour, Prince said, and wages for the 12 part-time employees approach \$10 per hour. The full-time employees also receive benefits, such as paid health insurance and paid leave, he said. Some of the workers have been there more than 20 years.

“Access to the American Dream basically means that a person working a 40-hour week can support their family and cover their basic costs,” he said. “Minimum wage used to be a kid’s wage. It’s not anymore.”

Most of the full-time workers also work as musicians or disc jockeys, but their primary income is their paycheck from the store, Prince said. He schedules their shifts in the store to accommodate their band tours because he considers their musical knowledge an asset. “We have very knowledgeable people here,” Prince said. “They have great relationships with my customers.”

Adjusting Business Model. Record stores are “a declining industry” with declining prices, Prince said, so he has adjusted his business model. Vintage Vinyl has added services like turning LPs into CDs, and it handles a “huge amount of mail order” to serve customers throughout the country whose local record stores have closed, he said. The store also stays open late and hosts 150 live band performances a year to entice potential customers into the store, Prince said.

The store also tries to keep its operating costs low. Prince got rid of the cleaning service, he said, and when the store needed to be painted, he did it himself. The store recycles materials and is striving to be more energy efficient.

Prince said he has been advocating for an increase in the minimum wage for 10 years. “If you’re a small business, and you’re paying a fair wage, you should be fighting for everybody to pay a higher minimum wage because that is money that is being drained out of your community by gigantic corporations” that pay low wages, he said.

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“Most of us are competing with huge organizations that have gigantic economies of scale,” so we ought to “at least force them to pay what we’re paying here,” Prince said. “If we can force those companies to do it,” he said, “it will all circulate better and create more wealth in our community.”

Carmen Ortiz Larsen, the president of Aquas Inc. in Bethesda, Md., also feels an obligation to the community and to her workers.

“We need to be responsible community members,” Larsen told Bloomberg BNA Aug. 4. “We decided we’re going to have a [business] model that pays \$10 [per hour] for entry level” and that gives people a chance to advance, she said.

Aquas has 62 employees who provide information technology and administrative services and maintenance for trains and buses. Some of Larsen’s workers clean airport passenger trains and subway cars for the Washington, D.C.-area Metrorail system. The lowest paid worker currently earns approximately \$12 per hour, Larsen said.

Workers Struggling With Finances. Larsen, who has been running Aquas since 1990, said she used to start some workers at the minimum-wage level, but “it was rough on the person.” Her minimum-wage workers often received telephone calls that interrupted their work, and she suspected creditors were calling them about unpaid bills. The workers also were frequently late, she said.

“They were struggling with financial issues at home all the time. It made for an employee that was torn between handling these issues at home and doing a good job,” Larsen said.

“It’s easier to not be sensitive to these things if you remove yourself,” Larsen added. “I suppose if we were a huge company and I didn’t make a point of saying hello to the staff, these people could become a number on a sheet.”

The higher wages also benefit Aquas by encouraging workers to stay with the company, Larsen said. The cost of recruiting new staff and doing criminal background checks is “high,” she added, and “it wasn’t good for our customer base to keep seeing different people.”

Larsen questions why there is so much opposition to increases in labor costs. “It’s not that big a deal when we talk about leases or consumables increasing in price,” she said. Small business owners are “just going to have to figure out” how to develop a business model that can “absorb changes in the labor force” such as higher wages, she said.

When she has to raise prices for her customers, “we try to add value by improving customer service,” Larsen said.

Paying ‘What They’re Worth.’ Another employer who values low staff turnover is Glynn Lloyd, the chief executive officer of City Fresh Foods in Dorchester, Mass. “We’re willing to pay folks what they’re worth,” he told Bloomberg BNA July 31. His business, a commissary kitchen that prepares foods for schools and Meals on Wheels, employs approximately 90 people who prepare, package and deliver food.

Lloyd starts workers at \$9.50 or \$10 per hour, and the average wage at City Fresh Foods is \$11.50 per hour. “We’re making that back by keeping folks here,” he said of the higher wages. “The biggest cost is retraining,” Lloyd said. “We treat our folks well,” he said. “As

a result, we have longevity.” He said his average hourly worker has been with him for five years.

Lloyd said he does not have much price flexibility because “a lot of our contracts are federally funded,” so he offsets the wage costs by monitoring his material and transportation costs and “running a lean, efficient organization.”

He has not had to limit the number of people he hires because “we have been on a steady growth path” since the business opened in 1994, he said. “As we’ve become more profitable, we’ve been able to be more generous” to workers, Lloyd said. Paying higher wages “is just part of who we are. We’re trying to create good jobs in communities that are lacking,” he said. Income inequality has “weakened us as a society,” he added.

The wage issue can become complicated for restaurant owners because there are different minimum wages for tipped and non-tipped employees. Federal law allows employers to pay their tipped employees a minimum wage of \$2.13 an hour as long as that amount plus the tips add up to at least the federal minimum wage. If the amount does not equal the federal minimum hourly wage, the employer must make up the difference.

Pi Pizzeria, a St. Louis-based restaurant chain, raised its base wage for non-tipped employees to \$10.10 per hour in April, co-owner Chris Sommers told Bloomberg BNA July 24. He said Pi also is looking at the possibility of raising wages for its tipped employees.

“Everything’s working out. We’re still making money. We’re still expanding. We’re happy we did it,” Sommers said. “A lot of people working for us at the lower wages are not teenagers. They are the primary breadwinner.”

‘Just Scraping By.’ Sommers said he asked his financial advisers late last year whether Pi could afford to raise wages for non-tipped employees after he started “hearing stories about people who couldn’t get to work because they needed a car repair” and about others who “were just scraping by.”

He said “it took us a few months” to figure out how to implement the increase without having layoffs, but since the raise went into effect, he already is seeing the benefits.

“When we think of how we invest in our business, we tend to think of employees as a cost. That’s not true,” said Amanda Rothschild, co-owner of Charmington’s cafe. “They are actually an investment in the business that pays a return.”

“People feel appreciated, so in general they do a better job,” Sommers said. With the higher wages, “they’re less distracted because they’re not worrying where their next meal is coming from. They’re working harder. They’re less stressed.”

Since the policy change, which raised the pay of 175 employees, “our hospitality has improved,” he said. “Our employees know that we’re thinking about them,

and they're taking better care of our guests." In addition, Sommers said, "Our waste is down. We're not throwing away as much product."

Furthermore, "our turnover is down," Sommers said. When Pi needs to replace an employee, "the caliber of candidates is better," he said.

Customers appreciate the change, too, he said. Some customers told Pi staffers they came to the restaurant because they support its higher wage structure. "They really appreciate that we're taking care of our team," Sommers said.

"In the end, we're probably making more money" even while paying the higher wages, Sommers said. The "fearmongering" by some business groups that raising wages will hurt businesses "has been proven wrong," he said. "The Chambers of Commerce do not speak for me."

In fact, Pi is expanding. The chain, which currently consists of six restaurants in St. Louis and one in Washington, D.C., is planning to open restaurants in Miami and Cincinnati later this year and more in at least two other cities in 2015.

'Basic Need.' Charmington's in Baltimore is another culinary establishment that has managed to stay afloat despite paying higher wages. Amanda Rothschild, co-owner and managing partner, told Bloomberg BNA Aug. 5 that Charmington's starts employees at \$8.75 per hour. They also receive tips, which average \$3 per hour.

The cafe also provides benefits that include paid vacation and sick leave, according to Rothschild. "It seemed like a basic need for people," she said. "You can't have sick employees working behind the counter preparing your food."

Rothschild said Charmington's has offered paid leave since it opened in 2010, and two years ago it started paying 50 percent of the health insurance premiums for full-time employees. She maintains a staff of about 15 employees, of whom three or four are part time.

Charmington's balances the higher payroll cost with lower staff turnover and greater productivity, Rothschild said. "An employee who's been here over a year is going to create a better product," she said. "There are fewer problems with dropping food or making mistakes."

Rothschild said an employee who is better paid is more able to "concentrate on their job" instead of thinking about his bills or getting to his second job. "When you are making minimum wage, your mind has to be split between your job and making ends meet," she said.

Higher wages lead to employee contentment, which contributes to a friendly atmosphere in the cafe, Rothschild said. "We have a really heavy morning rush," so "a lot of times we are the first people our customers see during the day," she said. "The people who work here seem happy, and that's the environment that people want to visit every day."

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