

# CAN YOU AFFORD TO PAY MINIMUM WAGE?

So, you're looking to buy a car. You don't have a large budget; you want to make a smart purchase—something reliable, something efficient, but most of all, something that won't break the bank. You review your options, and you land on an economical base model. It's exactly what you think you need, so you head to the dealership. Then the dealer hands you the list of options. You decline the premium sound system and the spoiler, but what about the safety features, like traction control and the newest airbag technology? These features increase the sticker price, so at first glance do not fit in to your plan. Still, you opt for them. The best surprise comes when you call your insurance company; your agent says that the features on the new car qualify for a discount on your premium, so they'll pay for themselves in less than two years. Sure, you may have spent a little more than you budgeted, but in the end, the benefits of the safety features outweigh the costs—monetary and otherwise.

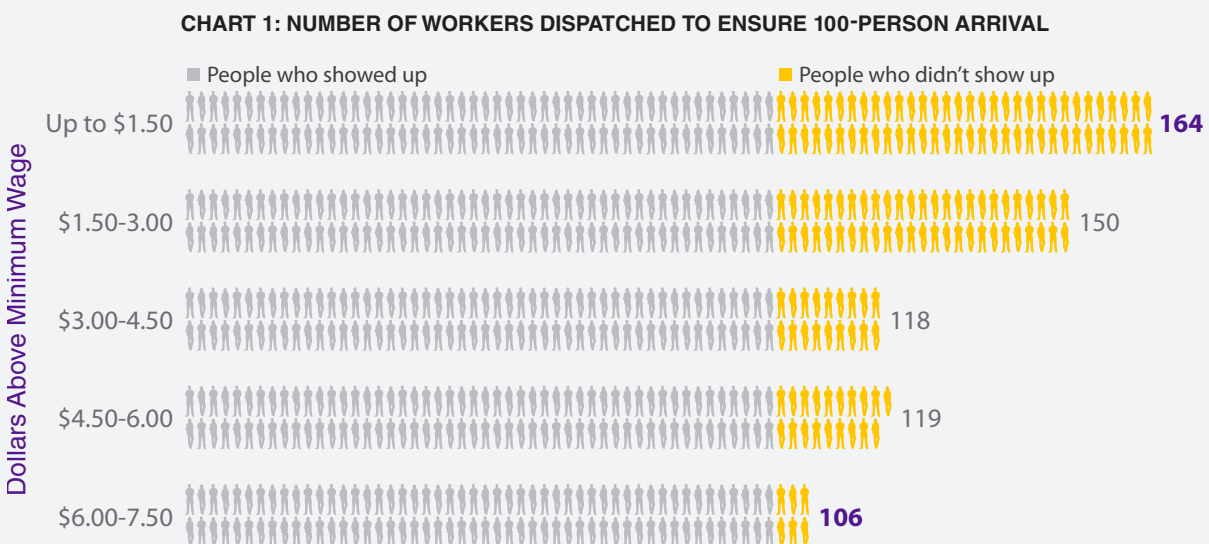
How does this apply to hiring minimum wage workers? We're not going to say you get what you pay for, because many quality individuals got their start in a minimum wage position, and we're certainly not going to say that you should pay your entry-level workers triple the minimum, because that is a bad business decision. But our research has shown that by simply striking the right wage chord, the odds of creating a motivated and reliable workforce can be increased, and the benefits of a wage increase can outweigh the upfront costs.

This is a critical point for today's employers to reflect upon because we're in a job seekers' market. Firms across the U.S. are finding the fight for talent extremely competitive. Additionally, many of our employer partners, aware of the short supply of workers, have expressed concern that their valuable talent is at risk of being poached. After all, why would an employee stay with a company paying minimum wage when he or she can go across the street and do the same job for two or three dollars more per hour?

It's time to ask the question: Can businesses afford to keep paying the minimum wage?

## FIRST DAY NO-CALL-NO-SHOW

As shown in Chart 1, for every 100 associates who showed up to jobs within \$1.50 of minimum wage, 64 did not. To counteract this anticipated loss and its disruptive effects on clients, extra workers must be dispatched—a practice known in the staffing industry as “overfill.” Correspondingly, as wages rise, overfill needs lessen—illustrating less recruiting effort is required when offering more desirable wages.



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As more job opportunities become available and the labor pool continues to contract, meeting steep overfill requirements for low-wage positions will only become more challenging, consuming more resources, requiring greater time investment, and lengthening the recruiting process. And when time equals money, this has a negative effect on both client and vendor.

## TURNOVER

Turnover is a broad term that can cover a wide range of events—it includes individuals who give notice, those who walk off the job, and those who are terminated. It includes people who worked for months before quitting as well as people who left as soon as training was complete. When and how an employee quits makes a difference in the financial and operational cost of the quit. But the end result is the same: turnover disrupts productivity, wastes time, affects morale, and eats into profits.

As demonstrated in Chart 2, we found that turnover decreased as wages rose above the minimum. Of course, this shows correlation, not necessarily causation. It may be that offering higher wages increases the quality of candidates interested in a position. It also could be that higher monetary incentives motivate employees more. However, whether the quality of candidate improves or the existing employees feel more motivated, the net result to the employer is less turnover, less training time and cost, and less disruption to operations.

## TENURE BEFORE VOLUNTARY QUIT

Once a client has made the investment to train an employee, the longer the employee stays, the more value he or she brings. In Chart 3, we see the strong correlation between low wages and shorter tenure before a voluntary quit. Voluntary quits encompass both with- and without-notice departures.

CHART 2: TURNOVER AS A % OF AVERAGE DAILY EMPLOYMENT

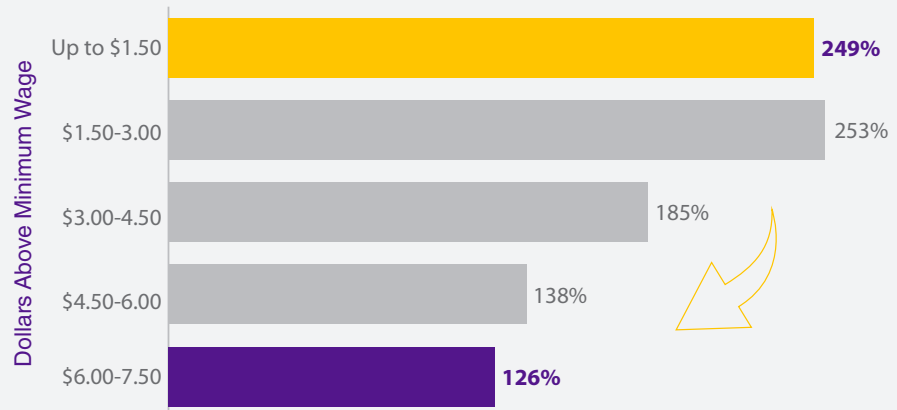


CHART 3: AVERAGE DAYS BEFORE VOLUNTARY QUIT

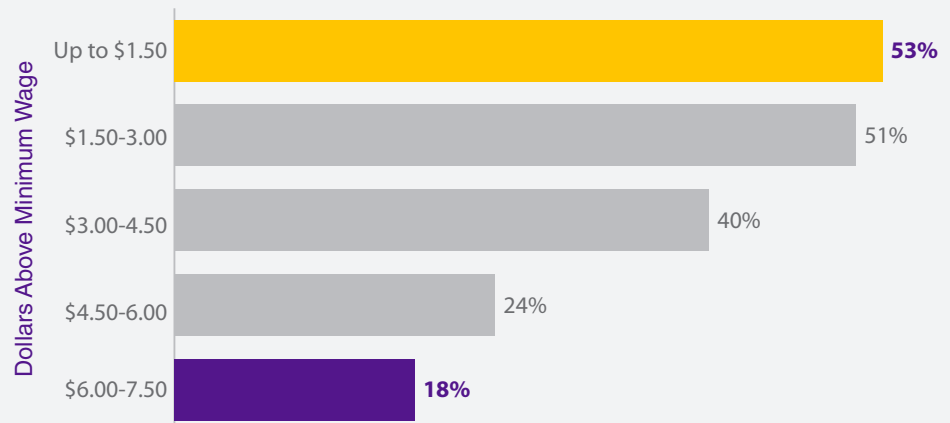


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## JOB ABANDONMENT

Job abandonment, a subset of voluntary quit, is the abrupt and immediate departure of an already trained employee. It is arguably the most egregious turnover scenario—and the costliest—because the expense of finding and training a new associate is compounded by the unanticipated loss of productivity. As seen in Chart 4, we found that, on average, for each \$.50 increase in pay, job abandonment decreased by slightly more than 3% as a percentage of average daily employment.

CHART 4: JOB ABANDONMENT AS % OF AVERAGE DAILY EMPLOYMENT



## CONCLUSION

Pay is no magic bullet—the decision to leave a job is complex, and pay is only one factor. However, it is important not to ignore its role in recruitment and retention. A decision to pay minimum wage comes with immediate savings, but, much like how outfitting a base model car with a few safety-enhancing options provides a greater return on investment, so too does putting a little extra money into your starting wages. Something to think about before you take the keys.

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