The high cost OF A LOW PAY RATE

PRIDESTAFF®

Your Guide to Competitive Pay Post COVID-19

THE HIGH COST OF A LOW PAY RATE

Low pay rates have always been one means of controlling operational costs and in the wake of pandemic-related economic hardships, many companies cut pay rates in order to save jobs and keep their businesses running.

Now that the gears are starting to turn again, employers should consider raising starting pay rates or increasing existing pay rates – and not just to pre-hardship levels. Underpaying employees can actually be harder on your bottom line than overpaying them. Now is the time to start thinking about your pay rate and what it could be doing to help or hinder your business.

IN THIS EBOOK, YOU WILL LEARN:

READY TO GET STARTED?

ARE EMPLOYERS COMPETING WITH UNEMPLOYMENT COMPENSATION?

In response to sweeping business closures in March of 2020, the Federal Government passed the CARES Act to aid businesses and individuals impacted by the shutdowns.

Part of that legislation included expanded unemployment benefits. Everyone collecting unemployment was able to earn an extra $600 per week until the end of July. The generous benefits extension was designed to keep people home to slow the spread of COVID-19, but is now creating a massive conundrum for employers.

WHY?

Because people ARE staying home...

and some are dragging their feet on returning to work because they earn more on unemployment than they do working. In Alabama, for example, the maximum standard weekly unemployment benefit is $275. The extra $600 increases that maximum to $875, which would be an income increase to anyone who was formerly making less than $45,000 a year.

If your business needs temporary or full-time employees to relaunch or to take advantage of new opportunities in the new economy, it will be necessary to make jobs enticing to compete with unemployment benefits.

Now, more than ever, it will be important for employers to focus on paying competitive rates to attract and retain good employees.

LOW-PAID EMPLOYEES ARE UNHAPPY EMPLOYEES

Even in simpler times, low pay spelled trouble for employers, as it led to employee resentment.

As those negative feelings grow, their workplace relationships suffer – especially relationships with supervisors. Angry and resentful employees:

- Tend to exhibit a bad attitude in the workplace
- Produce less and take more days off than employees who don't feel underpaid
- 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
- May be more inclined to engage in malfeasance

Now, as we navigate through a very real public health crisis, that resentment can run much deeper because employees may feel they are risking their health or even their lives to come to work, only to earn less than competitive wages.

LOW-PAID EMPLOYEES EXPERIENCE HIGHER STRESS LEVELS

Employees have financial obligations and, when they are facing economic struggles, 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.

That stress is only exacerbated with so much uncertainty swirling around about health, safety and the future.

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.

As you prepare to ramp your business back up in our new economy, your business can't afford to add to employee stress by not paying them enough. When you can lower their stress, employees produce more and stay more loyal to your business in the long run.

LOW PAY = HIGH TURNOVER

Ultimately, the biggest price employers pay for offering low rates is turnover. Businesses that pay only minimum wage suffer from the highest turnover, ranging from 50 to 200 percent annually.

IF A COMPANY EXPERIENCES 100% 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 competitive or 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 Resources 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, cutting significantly into your bottom line.

SIGNS YOUR PAY RATE IS TOO LOW

Figuring out pay rates in your market is relatively easy, thanks to online tools like the PrideStaff Compensation Portal. To request your free report, give our office a call today!

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

- You receive few (if any) applicants for an open position.
- 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 rate. 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.

If it takes
3 months
for a new employee to reach max productivity,
the cost is 25%
of their annual pay.

HOW TO CALCULATE THE TRUE COST OF LOW PAY

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 annual 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.
- 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.

SHOWCASE THE TOTAL VALUE OF YOUR OFFER

Money is a significant motivator for job seekers and employees. Great people know their value and they will seek out employers who are willing to pay more.

BUT MONEY ISN'T EVERYTHING.

That's why it's equally important to focus on value beyond the paycheck, especially now. Remember, you're going to be competing with high pay rates for unemployment compensation, so getting people to come back to work full-time could be a very real challenge and benefits can help you overcome that challenge.

When talking to candidates about pay rates, also highlight important benefits like:

- Medical, dental & vision insurance
- Paid time off – specifically sick pay
- Family leave policies
- Childcare benefits
- All PPE you provide
- Safety measures you've put in place to protect workers
- Professional Development
- Paid Training – Retirement / 401(k) Benefits

You don't have to pay the highest wages in your market, but if you want to attract and keep great people, it's necessary to pay competitively and a strong benefits package always sweetens the pot.

	COSTCO	SAM'S
~ WAGE	**$17.21**	$12.24
TURNOVER RATE	**17%**	44%
TURNOVER COST	**$244 M**	$612 M
2019 REVENUE	**$149 B**	$58.8 B
OPERATING PROFIT / EMPLOYEE	**$21.8 K**	$11.6 K

A TALE OF TWO PAY SCALES

If you think higher pay rates don't positively impact the bottom line, consider Costco and Sam's Club, 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 $17.21 per hour. Sam's Club pays a much lower rate of around $12.24 per hour.

Costco's compensation 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.

The bottom line: high pay outperforms low pay

Sam's Club generated $58.8 billion in revenue in 2019 and Costco generated a stunning $149 billion. However, Costco did it with 35 percent fewer employees. Their stable and productive workforce offsets the costs of higher wages by generating $21,805 in operating profit per hourly employee compared to just $11,615 at Sam's Club.

In a time when every organization needs to keep operational costs down, paying employees more can actually improve bottom-line results.

ARE YOU READY TO GET MORE COMPETITIVE?

Do you think your pay rates could be costing you talent or leading to high turnover? Do you want to attract higher-quality candidates and leverage talent as a competitive advantage to race to the top of your market? 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. Our On Target fulfillment process eliminates chance and inconsistency, helping you create a lasting match between employer and employee – no matter the economic conditions.

CALL PRIDESTAFF TODAY TO REQUEST YOUR FREE REPORT!

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