

The Price of Pay Hikes

CEOs need to wake up to a new world that minimum wage hikes are creating.

For now, it's another heated debate between the left and right: Will raising the minimum wage improve life for the poor, or just force businesses to lay them off? Regardless, for corporate leaders,

there may be only one response at the moment: Just get ready.

In case the details are a little hazy, one camp of politicians has been pushing to raise the federal minimum wage of \$7.25 an hour to anywhere from \$10 to as high as \$15 an hour, while others argue for a much more modest increase, or none at all. Either way, with outfits like Walmart raising pay for some one million workers this year, the momentum for change in the entry-level arena seems to be strong. And that's where the corner office and boardroom crowd may need to focus.

"It's not just raising wages for one group of people," says Craig Rowley, senior client partner, global consumer, Korn Ferry

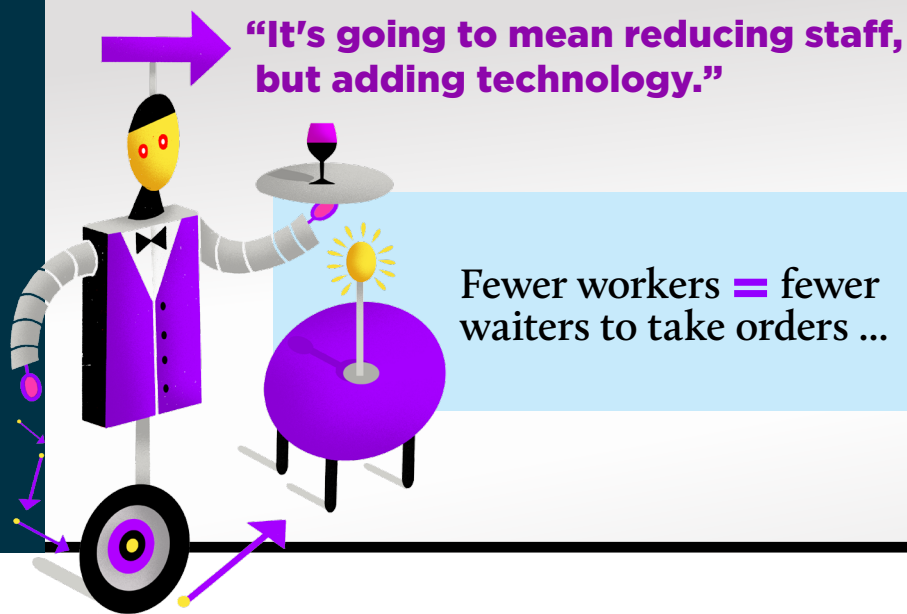
Hay Group. "It will have a fundamental impact on our economy and on how work is done."

Think he's exaggerating? Even though a federal minimum wage change would affect only about three million workers, the impact could be fairly significant. A sampling of 150 companies in Hay Group's database, for example, suggests that a \$10-an-hour standard alone could boost labor costs at those firms by as much as \$4 billion to \$5 billion. A jump to \$15, which is unlikely but which was passed this year in New York City and a few other places, starts to get even more serious: as much as \$20 billion to \$30 billion.

Beyond numbers, employee engagement comes into the picture quickly. As Rowley points

SHIFTING SERVICE

According to a nonpartisan Congressional study, raising the federal minimum wage to \$10 an hour could eliminate 500,000 jobs, while also raising standards for millions. But what happens to the customer experience, and how are savvy companies preparing? Korn Ferry's Craig Rowley offers his take on restaurants.



out, when you raise entry-level minimums, you create quite a management challenge—with some higher-paid employees feeling downgraded in status and pay scale. The lingo for all this is “job compression,” and dealing with it can mean reassessing entire pay structures. What’s more: Service-sector companies forced to cut staff will certainly need to rethink how to make hotel cleaning staffs and restaurant waiters more efficient.

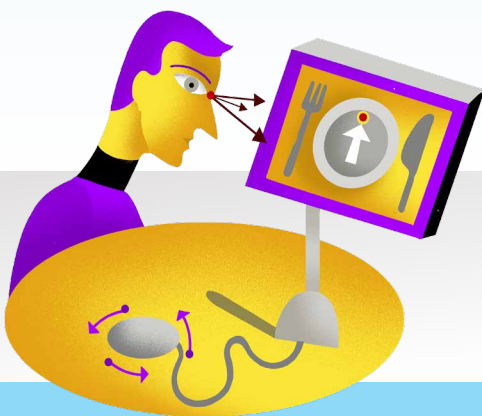
But where there is change, there is opportunity. Employing an arsenal of new technology and management, Rowley says, the most nimble companies will adjust faster and get a jump on their competitors. “There are going to be people making money on this,” he says. “You need integrated solutions. Getting leaders to think another way.”

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Some examples: Grocery stores installing more self-checkout stations to make up for fewer staffers, or hotels creating a better system to encourage guests to check in electronically.

As for retailers, the changes may be more dramatic down the road. Higher wages may mean fewer stockers, and thus fewer blue jeans available in stores. The answer: Turn stores into

“showrooms” that ship goods customers try out. How comfortable the public would be with that isn’t known, but ultimately, it suggests yet another rippling effect from today’s wage-hike debate that may last for years. “Originally, a hundred years ago, you came to stores just to select goods,” Rowley says. “Carrying out shopping bags was considered gauche.” ●



= introduction of computerized menus at tables ...

“All the waiter has to do is take your order to your table.”

= a better experience for diners who don’t have to flag down waiters!

