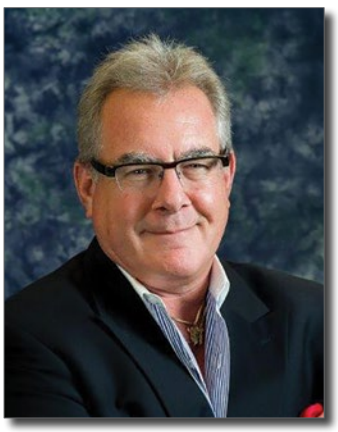
New Wage Rates and Exempt Staff Rules:

What Will the Impact Be?



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Cost of goods, labor costs, overhead, fixed charges, rent/mortgage costs. All have a direct impact on the size of your bottom line. Which is the most critical, and which do you have the most control over?

Well it depends, but in most cases within the service industry, direct operating costs, of which labor is the largest, is the definitive answer not just from a pure dollars and cents perspective but also in terms of impacting customer perceptions. Will the customer come back? Will he/she recommend this place to others? Was the value received "good to great"? Your labor force directly impacts these thoughts and conclusions.

The absolute cost of labor (wage rate) is impacted by a few factors, most of which an organization has little control over.

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1. Supply and Demand: The more demand exceeds supply, the higher the wage rate will generally be. Of course, the inverse is also true, as exemplified over the last seven to eight years.

2. Union Agreements: Pre-determined wage rate changes are "baked-in" to the agreement, and when it is time to renegotiate, the rates rarely go down.

3. Government Regulations: Simply, an organization must comply with the law and stated regulations that stipulate the minimum that must be paid per hour and when overtime should be paid.

If there is one thing that has been made crystal clear over the past few months, it is that the cost of an hour of labor has and will continue to increase across the country based on government directives. Further, with new rules announced regarding exempt and non-exempt staff, the labor costs of running a business related to supervisory and/or managerial staff will also increase for many operations. While I am starting from an absolute perspective relative to wage rates, the impact of these changes on the bottom line results will have to be mitigated to some degree if businesses are going to continue operating effectively and, most important, profitably.

From a mitigation standpoint, an increase in product and/or service prices will create some level of offset to the wage rate increase. Another approach is to find ways to increase overall productivity. Organizations will need to look at how they staff and how their teams are deployed and move to greater utilization of staff, which may well include more thorough cross utilization. This will also drive a need for better and more broad-based training. Automation must, and will, also be considered. As an example, I recently recommended the use of QR codes to a prospective partner for placing orders instead of having a cashier punch the order into the POS. This, obviously, would work for customers who order the same product time and time again. We are already seeing ordering kiosks pop up in certain operations, such as fast service and on-table devices in family-style restaurants, a trend we expect to continue. In fact, there is a movement away from front desk check-in to using smartphones as room "keys." Finally, on the other side of the equation, it is very possible that increases in income will lead to volume increases in various operations. All of these will have mitigating effects on wage increases.

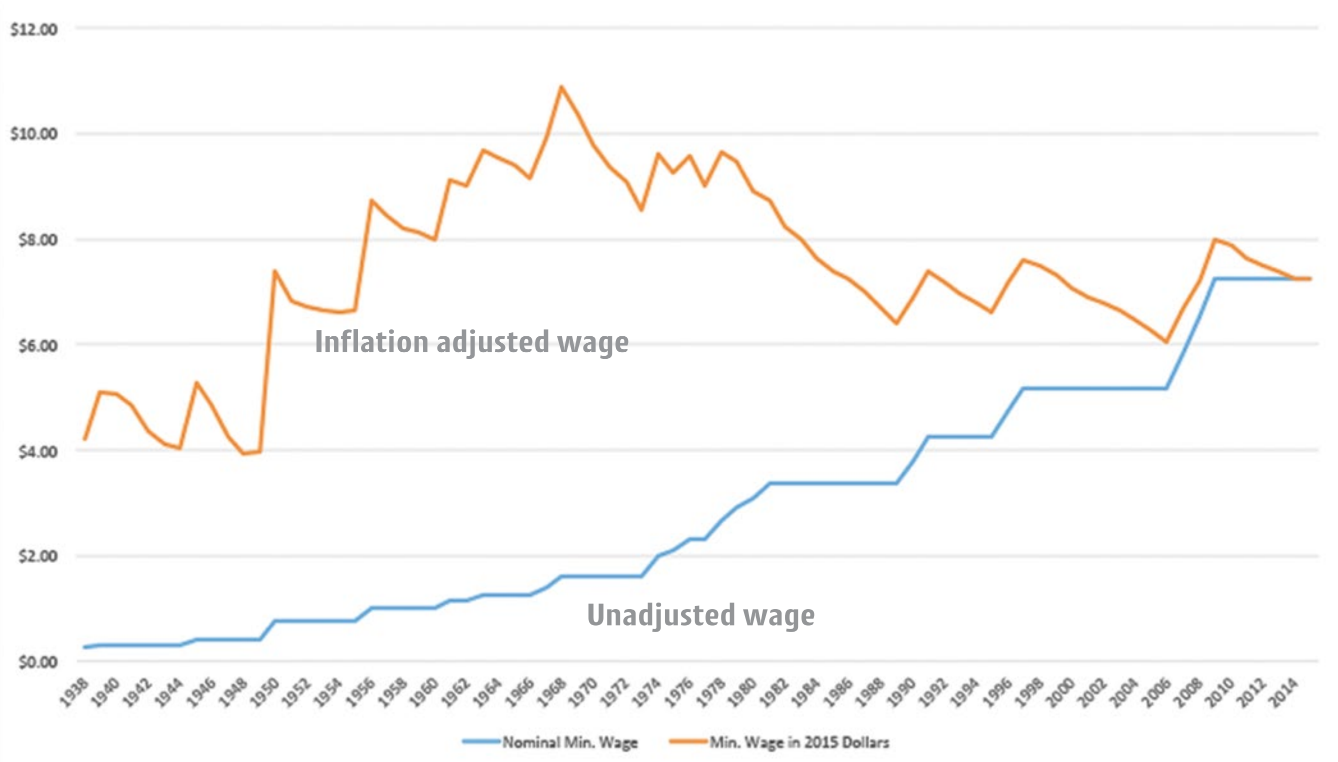
Suffice to say, the markets are going to be impacted by the new wages. In this edition, you will find discussions of impact, mitigation, and operational modifications related to the wage rate changes. We have attempted to bring additional perspective and ideas as to how to address this higher costs environment. I am sure you will recognize that there are other ways of impacting the wage rate increases, but we trust that the enclosed articles will contribute to your discussions. I look forward to your feedback and hope you enjoy this edition.

Best regards,

Mark

Minimum wage since 1938

When the federal minimum wage first became law in 1938, it was 25 cents. Adjusted for inflation, that would be worth $4.13 today. See how the historical minimum wage corresponds to the value of today's dollar.



Sources: BLS, DOL; Figures adjusted to 2015 dollars using the CPI-U