

Employee Compensation

Competitive compensation is essential to attracting and retaining the talent that makes your business thrive. But figuring out how to pay your employees a salary that they consider fair and competitive is no simple task. With rising minimum wages and increasingly competitive labor markets, it can be difficult to keep up with what's considered fair compensation in your market or industry. [According to a recent poll, low compensation was the primary reason employees listed they have left or would leave a job.](#)

Retail businesses often operate on thin margins, meaning that changes in employee compensation—often your business's biggest cost—can have a significant impact on your bottom line. However, providing competitive wages can also be a long-term investment that boosts employee stability, which can reduce costs incurred from high employee turnover and rehiring.

Your employees are one of your most valuable assets. Higher compensation, paired with other improvements in job quality, can lead to greater productivity and improved customer service, as well as attract qualified candidates—helping not only your employees, but also your bottom line. While the true cost of employee turnover can be hard to calculate due to the numerous intangible and time involved, some studies estimate [the cost to replace a \\$10/hour retail employee is about \\$3,330](#). With a [median turnover rate of 67% for part-time retail workers](#), turnover could cost an employer with 10 employees over \$20,000 annually.

Employee Compensation: The Business Case

How can increasing employee compensation benefit my business?

As a small business owner, you want to treat your employees well, and that starts with their salary. Whether you're motivated by improving the employee experience, gaining a competitive business advantage, or retaining your high-performing staff, [increasing employee compensation can benefit your bottom line in a number of ways:](#)

- **Attract the best workers.** Providing a competitive wage helps you to recruit the talent you need for your business. The best workers, paired with effective operations, good training, and respect for workers' time can improve the performance of your business.
- **Improve performance and service delivery.** Workers who feel an improved sense of financial well-being and overall health are more productive workers. Of sampled employers who implemented living wages, [over 30% reported improvements in work performance and over 40% reported a boost in employee morale and customer service.](#)
- **Boost employee retention.** It's a fact that better-paid employees tend to stay with companies for greater lengths of time, [providing cost savings to businesses](#) on rehiring and retraining of staff. Across sectors, employers who implemented a wage increase, largely moving from on par with minimum wage to above it (such as Costco, KPMG, and the San Francisco airport), saw large reductions in turnover rates ([some with more than a 15% drop](#)). Employers also experienced lower rates of absenteeism and lower rates of sick pay abuse, which they attribute to having a more motivated and engaged workforce.
- **Increase employee morale.** Higher-wage workplaces tend to have higher employee morale and lower rates of theft [compared to lower-wage businesses](#). Research shows that if a business provides a wage increase of \$1, for example, they can expect to lose about 40 cents less in cash and inventory.
- **Improve company reputation and brand.** Paying a competitive wage can help your business foster repeat customers and attract new customers, generate positive publicity, and demonstrate that you're a business that [prioritizes its people](#). The Meaningful Brands report, conducted by advertising agency Havas, found that "for every 10% in meaningfulness, a brand can increase its purchase and repurchase intent by 6% and price premiums by 10.4%."

Despite the benefits enumerated above, it's important to remember that [increasing compensation won't impact payroll alone](#). It may also increase your business' payroll taxes, as well as potentially raise the amount of money you'd need to match in 401(k) and other savings benefit plans. Be sure to factor any potential costs increases that come with increasing employee compensation into your calculations to gain an accurate picture of how you'll need to allocate resources.

COVID-19 Resources

Tailored resources to help you make decisions around employee compensation at your small

business, help you reopen safely, and your employees build resilience in the midst of COVID-19.

[COVID-19 Resources](#)

Employee Compensation: How to Get Started

How do I determine what's a fair wage to pay my employees?

Providing a competitive wage can be essential to attracting top talent—and keeping them. However, compensation rates can vary greatly within the retail sector depending on location, skillset, and level of experience.

First, make sure you understand what the minimum wage laws are in your city and state by using the U.S. Department of Labor's [interactive minimum wage map](#). (For additional legal detail on the types of employees and their compensation, The Balance's [What is an Hourly Employee?](#) provides helpful detail about employee classifications and the difference between exempt vs. non-exempt employees.)

Next, find out what's considered competitive compensation for your employees in your industry and city. A Living Wage is considered the gold standard of fair wages because of the quality of life it enables wage earners to attain. You can also check out [Salary Comparison: How to Know If Your Small Business is Paying Fairly](#)—a step-by-step resource for small business owners to guide employee compensation, including interactive salary comparison tools like [this one from Indeed](#).

After going through this process, if you see that your employee wages are below industry standard, the next section (What steps can I take to increase employee wages?) is a great starting place to identify tactics to help you boost compensation. If you confirm your business is paying a competitive hourly wage—that's great! We encourage you to consider the benefits of investing in your workers listed below and see if you can continue to move the needle on employee compensation, ideally toward a living wage.

What is a Living Wage?

A living wage is one that covers the basic needs of an employee (and sometimes his/her family), including food, housing, healthcare, education, and transportation, as well as some discretionary income. It also takes into account the household size of the average worker to determine the wage necessary to support a family. It was created to provide a more complete picture of the compensation needs of employees, as the minimum wage for a city or state is often insufficient for even full-time employees to afford their basic needs, especially if they have a family.

While there is no single, definitive way to calculate a living wage, PCV uses the [MIT Living Wage Calculator](#), which identifies typical expenses and wages to determine the living wage for a given region (county or state). If you're trying to set a long-term goal on employee compensation and you want a standardized way to figure out what's a fair wage, a living wage can be a helpful benchmark.

[See The Calculator](#)

What steps can I take to increase employee wages?

Most small business owners want to pay their employees as well as they can. However, implementing wage increases takes planning, including weighing costs and benefits.

When deciding how compensation increases could work at your business:

- **Start where you can.** Find out the median wage in your area and industry to better understand if you're paying staff a competitive wage. [Indeed's salary tool](#) is a great resource for wage benchmarking and can be filtered by city and state.
- **Be careful of only raising the floor.** Raising the base pay of only the lowest-wage workers can lead to "wage compression," where entry-level staff may earn the same amount as those with more work experience or higher levels of responsibility. When wage compression occurs, veteran staff members can feel that their additional responsibilities or long-term commitment to the company aren't being recognized, [negatively impacting morale](#) and employee retention.
 - Instead, it's helpful to maintain some space between pay ranges. For example, if you can afford to raise wages, try bumping up all wages by the same percentage. Alternatively, a lower-cost solution could be implementing a cascading increase where the lowest-paid employees receive the largest percentage bump and more highly-compensated staff members receive a slightly smaller percentage wage

increase.

- **Remember that it takes time.** Even if you can't afford to pay everyone what you'd like immediately, it's important to map out your ideal levels of employee compensation over time to ensure it's an objective you're working toward in your business plan. It's helpful to set goals, establish timelines, and openly communicate with staff about which [steps you plan to take toward paying higher wages](#). Furthermore, setting clear expectations around career progression and associated pay increases can give your employees extra motivation to stay with your business and work hard.
- **Remember schedules impact take-home pay, too.** Both wage and schedules matter for stable pay. If you can raise wages and provide stable and adequate hours for workers, they will then have a stable base for their financial life. If you pay well by the hour but offer unstable schedules, where employees may get 25 hours one week but only 10 the next, it will still be hard for people to make a living. So make sure to look at the numbers of hours each employee works per week over a 3+ month period and see how variable it is and if they are getting the hours they want. If not, the [Scheduling section](#) offers ideas on how to provide more stable schedules. For helpful perspective, the *New York Times* [has a great article](#) highlighting this challenge for workers.

Below, we've listed a few tactics you can use to make a wage bump more financially feasible at your business:

- **Decrease employee costs in other areas.**
As a first step, it's critical to understand what your employees value the most—is it health benefits, a higher wage, a matched retirement plan, stable schedules, or discounts and transportation subsidies? If a wage increase is the top priority, you can make an informed decision, in conversation with your staff, about which benefits, if any, could be scaled back to accommodate a wage hike. Perhaps your staff prefers to use your state healthcare programs if it means your health benefits expenses could be redirected toward higher compensation. By moving to 100% direct deposit, businesses can save upwards of \$3 for every check not cut, which can add up over a year to create significant savings. By moving to direct deposit, you're also providing a [more secure and convenient payment method for your employees](#).
- **Get employee buy-in on increasing sales targets.**
[Increasing sales targets can be an effective tactic to help your business afford providing a higher wage](#). Every employee knows that you want your business to make more money, but it's critical to communicate to your workers that receiving a higher wage is directly tied to their ability to support the business in increasing its sales numbers. Helping employees

understand how their actions impact business decisions and compensation can drive collective motivation toward meeting your sales target. You can also boost employee ownership of this goal by brainstorming as a team on strategies to increase sales, and assigning employees specific tasks to help the business reach its goals. They can help generate additional traffic through customer and community outreach or social media, talking to customers about what other products or services they would like, and more. This kind of employee engagement builds team ownership and skill sets for your employees while driving new ideas to boost sales, a win-win.

- **See if other business expenses can be cut.**

Other means of cutting expenses can include going paperless, sourcing cheaper supplies, monitoring your store's energy efficiency, pooling resources with other business owners on purchases, and keeping track of tax write-offs. Your employees likely see cost savings opportunities too—from activities that waste their time to products that don't sell well to high shrink items to how to decrease damages and waste. Engaging your employees in saving money and time can improve your bottom line, make their jobs more interesting and build their business skill set.

- **Hire with an eye to increase productivity.**

As compensation increases, so can standards for employee productivity and performance. If you hire with a focus on employee performance, employees' higher productivity can enable you to hire fewer workers, pay them higher wages, and retain them for longer.

- **Increase your prices—and be transparent about it.**

Retailers across the country, especially in the clothing and food sectors, are raising prices to help cover the cost of increased employee wages— and they're being open about it. National chains such as Sweetgreen have posted notices publicly explaining that increases in staff compensation and benefits are driving the bump in salad prices. In a different tactic, clothing retailer [Crossroads Trading Company now charges a two percent surcharge](#) on all purchases to cover the cost of increased employee wages, and makes this information public throughout the store. [Studies have shown](#) that consumers are willing to pay more for great customer service. Consider your customers and current pricing to determine if a price increase or surcharge could be appropriate for your business. For additional guidance, see [Tips for Raising Your Business Prices](#).

- **Streamline operations.**

[Consider your current staffing model and operating hours](#)—do you need the current number of employees to cover all shifts? Are there certain low-traffic hours you could cut down and thereby lower personnel costs? Also consider narrowing your product offerings to simplify operations and streamline employee responsibilities. For more detail on how

this works in practice, check out [Why Companies That Pay Above the Minimum Wage Come Out Ahead](#). The [Good Jobs Strategy](#) also provides additional detail on how to optimize your operations.

If you're considering making changes to staffing, hours, or benefits be sure to consult the [Small Business Administration's guidance, "Understand the Law Before Dropping or Reducing Employee Benefits."](#)

If you work through this section and it turns out that increased compensation doesn't work for your business, also consider other potentially less costly ways to support your employees and foster loyalty. Implementing these programs and benefits plans can help indirectly boost the value of employees' total compensation. Options include offering other benefits, such as [health insurance](#), [retirement plans](#), or [paid time off and more stable scheduling](#).

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Employee Compensation: Other Options

If raising wages isn't financially feasible, what are my other options?

Sometimes it's just not financially feasible to raise the compensation rates for your staff at this time. There are still a variety of ways to use compensation as a means to make employees feel valued, such as:

- **Demonstrating the full value of employees' compensation**, by [putting a dollar value to all the benefits your business provides](#) (health premiums, retirement contributions, life insurance, etc.), thereby showing the "real hourly rate" of staff members' total

compensation.

- **Offering higher wages to staff based on length of tenure** at your business, rather than across-the-board wage increases.
- **Providing one-time bonuses**, which can be contingent upon their or your business's performance or consistent across your staff. The benefit of this approach is that it doesn't carry pay increases forward into the future.
- **Paying your employees with direct deposit**, which delivers benefits for both you and your staff by cutting down time, lowering costs (savings range from \$2.87– \$3.15 per check), enhancing employee convenience, and [encouraging employee savings](#). For more information on financial wellness, see the [Retirement Savings and Other Wealth-Building Strategies](#) section of the toolkit.

You may find **some solutions don't cost any money at all**: for instance, asking staff how they would like to be recognized may generate ideas around pay, but could also generate ideas around employee recognition that are low cost or free.

Employee Compensation: Additional Help

Meet with an expert or get advice from a peer

When considering making changes to employee compensation, it can be helpful to seek out a small business expert for more guidance. Various free public and nonprofit services can connect you to advisors with personal experience running a small business, including SBA [Small Business Development Centers](#). Pacific Community Venture's own [BusinessAdvising.org](#) platform connects small business owners like you from around the country with thousands of pro bono, experienced business advisors who can offer advice on a range of issues, including HR, marketing, business planning, operations, and other small business challenges. To find other services in your area, visit the SBA's [Local Assistance page](#).