Plan for The Increase in Minimum Wage

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December 2, 2019

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Executive Summary

The minimum wage is increasing to $15 eventually, and Rock King LP has to prepare for that increase. We as a group had to figure out in what ways can they prepare for this change. Wage differed between certain positions, so we had to understand how much money would have to be spent towards each one. Most companies aim to spend 25% on minimum wage expenses, but unfortunately Rock King hasn’t stuck to that.

Rock King has to make many adjustments if they want to be prepared for these changes. We suggested ideas such as switching to salary pay, adjusting the menu, and even reducing employee retention. Also, looking at how the competition improves their profit, so in turn, we can evaluate how Rock King can.

With these potential solutions we also had to identify possible problems that would arise which allowed us to have the most efficient solutions possible. For example, if you were to raise menu prices you had to make sure that it wouldn’t be too much to where you lose out on customers. Then, with reducing employee retention, you don’t want to have too few employees to where you can not properly run a store to its full capacity. Finally, we suggested salary pay for the employees. With salary pay you know how much money is spent on wages, and in turn it actually eliminates overtime pay which is extra money paid to employees. Salary pay also could he reduced employee retention which is a major problem for Rock King.

In conclusion, we analyzed the minimum wage increase and how it would affect Rock King LP. We determined solutions and possible problems to help guide them in the right way to being prepared for this major change.

Introduction

The state of Illinois has recently passed a bill that will increase the minimum wage to $15.00 per hour by the year 2025. Illinois is the first Midwestern state to bump the minimum wage to $15.00. Other states including California, Massachusetts, and New Jersey have already made the jump to $15.00 per hour.

Currently, the minimum wage in Illinois is $8.25. The increase in the minimum wage will not occur all at once and will increase slowly over the next 5 years until 2025 when it hits $15.00. January 1, 2020, will be the first increase; the increase will be by $1.00 which increases which brings it to $9.25. The next increase will be on July 1, 2020, to $10.00 per hour. After this, the minimum wage will increase by $1.00 every January 1 until 2025 when it reaches $15.00.

This increase will cause an expense that will severely cut into profit of the business. The business model for Rock King currently allocates 25% of revenue to wages. When looking at the historical financials of restaurant #13305, it came to our attention that this restaurant was above the 25% mark for the past year by at least 3% each month. We are looking to find a way to decrease this and also account for the minimum wage change in the coming years. Without a change to the current business model it will be very hard for Rock King. Through our thorough research we have come up with ways to combat this change, but we must first take a look at the minimum wage change.

Objectives

First, we must simply understand the changes in minimum wage. As shown in the introduction the minimum wage in the state of Illinois will make the jump from $8.25 to $15.00 over the next 5 years. This is where we are faced with a problem. An increase of almost 50% to wages cuts into profit significantly. But how are other fast food restaurants dealing with the change?

Many restaurants increased their menu prices just allow themselves to still make their profits, while at the same time effectively prepare for the change. Some other places reduced their staff and then slowly made the minimum wages changes. Some statistics indicate: 71% increased prices, nearly half reworked menus, 64% reduced employee hours, and 43% eliminated jobs (Lucas). Rock King aimed for the 25% rule spent on wages. This would help allow them to still profit while being able to increase the minimum wage.

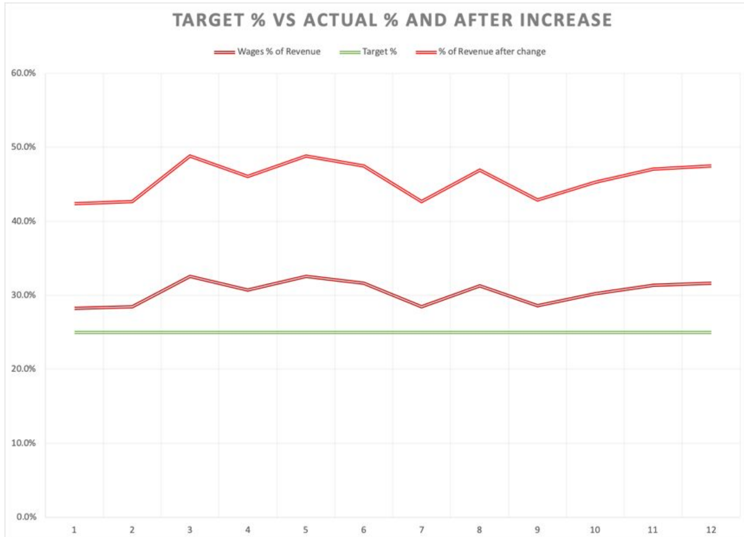

Figure 1

However, at the restaurant #13305 they have not been able to stick to the 25% rule for the past year. As you can see in figure one (above) the restaurant (dark red line) is above the 25% mark (green line) throughout the entire year. Now if the restaurant had made the same revenue but with the $15.00 minimum wage you can see where the line would be (red line). This is not sustainable for the business and must be brought down. Currently, #13305 is averaging 5.5% over the 25% mark, with a max of 7.6%. Some of this can be caused by the increased employee churn happening at many fast food restaurants. Getting employee churn down can help save money and ultimately help get to the 25% mark. As seen by this graph keeping the same revenue per month while increasing the minimum wage and amount spent on wages is a huge risk to the business and is not sustainable in the long run.

Basically, there are two options to combat this change: Increase revenue per month or decrease the cost of wages. First let's look at ways to increase revenue per month. The first and most obvious choice would be to increase prices. Only a slight increase will be necessary for certain items to help. For instance, increasing the price of the Whopper from $4.59 to $4.99 will bring increase to net profit on each Whopper sold. When looking at the Menu Item Sales Detail sheet provided to us by you; the Whopper sold a total of 6275 for the month of September. If the price was at $4.99 rather than $4.59 there would have been an increase of $2500. If applied to more items, this can bring in a significant amount more money.

Now increasing prices can help increase the revenue of each restaurant but we still need to look at decreasing the cost of wages as it will be increasing substantially in the next 5 years. Some solutions to decrease the cost of wages would be to acquire more automated systems so you can be paying less employees at a time. Although automated systems may have a bigger upfront cost than hiring a new employee, in the long run the automated systems will save you more money.

Furthermore, there are other ways to decrease cost of wages, one of which is the limit the amount of employee churn per month. This is a very costly problem that is occurring at almost every fast food chain in the country. It is a big problem to Rock King as well as our class has a group dedicated to finding a solution to this crisis. I am confident the other groups in my class have found creative solutions to this problem. If employee churn can be limited in the next coming years along with adding automation to cut away some costs, we believe the cost of wages can be cut down significantly.

The final solution we have come to is switching these hourly employees to a salary pay system. This sounds a bit odd at first but in the end could be the solution to all of your problems. When potential employees are looking for a job and look at Burger King and see they are making $8.50 per hour, many will turn away as there are other options with better pay like Target who pays $11.00 per hour. However, if they are in their search and see that they would be making $10,400 dollars per year, they may decide to pick Burger King because they see what they're going to get upfront. This can help retain employees along with eliminating costs like overtime pay. Furthermore, each month you would know exactly how much you would be paying employees for their work if they're under salary pay. It would be the same each month, helping you be able to budget easier and make sure you hit the 25% mark each month.

Evaluation

The many problems with minimum wage that Rock King must go through we as a team came together and proposed some solutions that might help take some weight off his shoulders. Our suggestions fall on the line of raising menu prices, employee retention and automation. These suggestions could help Rock King keep his business model below the 25% rule and improve his overall situation even if the minimum wage is continuously rising.

I would say raisin the prices on the menu would be effective in bringing more revenue and overall more money to each Burger Kings that he owns. With solutions may come more problems. Although raising menu prices could bring in more money, it may potentially come at a cost of losing customers which can add on top of the problems he faces now. Not to mention it could cost him more money bring in more supplies to keep up with the demands of his customers.

Automation is another solution that can be a good and effective advantage that Rock King can use. Adding more tech could improve the overall speed of service and help employees do their jobs more efficiently. As a bonus automation could also help with employee retention. For example, having more technology in the work area can improve worker performance and could potentially help with improving revenue. Problems with automation are that technology could replace actual live workers and may take away authentic restaurant tradition.

Strategy/Plan

In order to be ready for the change to minimum wage there are several actions that must be taken in order to keep a sustainable business. First would be to reduce the current amount of employee churn. This would help reduce costs caused by employees coming and leaving in short periods of time. These costs cut into revenue and keep the wages percent of revenue above the 25% mark that we are aiming for. One protentional solution to this problem along with the minimum wage problem would be to switch the current business model to salary pay for all employees. This can help in many ways, first being in employee retention as stated earlier, second is knowing the exact amount spent per month on employee wages, and finally there would be no added cost for employee overtime pay.

For this to be implemented there would have to be standards that the employee must meet in order to receive salary pay. First, when first hiring the employee they must know they have to work a certain number of hours per week. Whether this is 5 hours, 15 hours or 30 hours. Without this, salary pay will not work. Depending on how many hours per week the employee decides, depends on the amount their salary will be. This is the basic premise of switching the business model to salary pay.

If these options are implemented into the current business model then we believe it can make a significant different and help as the increases in minimum wage occur.

Sources

Lucas, A. (2019, April 25). Higher minimum wage means restaurants raise prices and fewer employee hours, survey finds. Retrieved from https://www.cnbc.com/2019/04/10/higher-minimum-wage-means-restaurants-raise-prices-and-fewer-employee-hours-survey-finds.h