These businesses found a way around the worker shortage: Raising wages to $15 an hour or more

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The owners of Klavon's Ice Cream Parlor had hit a wall.

For months, the 98-year-old confectionary in Pittsburgh couldn't find applicants for the open positions it needed to fill ahead of warmer weather and, hopefully, sunnier times for the business after a rough year.

The job posting for scoopers —$7.25 an hour plus tips — did not produce a single application between January and March.

So owner Jacob Hanchar decided to more than doublethe starting wage to $15 an hour, plus tips, "just to see what would happen."

The shop was suddenly flooded with applications. More than 1,000 piled in over the course of a week.

"It was like a dam broke," Hanchar said. Media coverage that followed his decision soon pushed other candidates his way.

Across the country, businesses in sectors such as food service and manufacturing that are trying to staff up have been reporting an obstacle to their success — a scarcity of workers interested in applying for low-wage positions.

The issue has raised concerns about the strength of the country's recovery as coronavirus cases abate, with the economy still down more than 7.5 million jobs compared with before the pandemic.

Republicans have blamed enhanced unemployment benefits for the shortage; Democrats and most labor economists say the issue is the result of a complicated mix of factors, including many schools having yet to fully reopen, lingering concerns about workplace safety and other ways the workforce has shifted during the pandemic.

The experience of 12 business operators interviewed by The Washington Post who raised their minimum wage in the last year points to another element of the equation: the central role that pay — specifically a $15-an-hour minimum starting wage — plays in attracting workers right now.

Nine of the businesses had announced pay increases to at least $15 an hour since March, amid concerns about hiring in the face of the tight labor market. The other three increased wages last year.

The business operators spoke about the challenges associated with increased labor costs, with three saying they had to raise prices for consumers. One of those, as well as two that did not raise prices, said they had to reduce some seasonal staffing or staff hours to make up the cost.

Enrique Lopezlira, a labor economist at the University of California at Berkeley and an expert on the low-wage workforce, said the stories were a sign, albeit anecdotal, that the market was functioning as it should in the face of excessive demand for workers.

“The more employers improve the quality of the jobs and the more they think of workers as an asset that needs to be maximized, the better they’re going to be able to find and retain workers long term,” he said.

A flex point

For Patrick Whalen, co-owner of the 5th Street Group, comprising five restaurants in Charleston and Charlotte, the breaking point came in late March. The restaurants were getting busier as more people started venturing out to eat. But applicants for the dozens of positions the company was trying to hire for were scarce. Understaffed and busy, the company was starting to get shredded with negativereviews online.

After one of his managers told him that a line cook needed to borrow money to get groceries, Whalen was moved to reconsider wages at the company.

“It was just one of those moments where you just kind of stop and you say, ‘Is there a real problem in our industry?’” he said. “We always kind of knew it was there, but we didn’t really know what to do with it.”

The company raised the starting wagefor all of its staff to $15 an hour, up from $12 to $13. And it created a “tipthe kitchen” program, addinga second line to table checks for gratuity for the back-of-the-house staff, which the restaurant matchesup to $500 per night. That move has increased wages for non-tipped employees such as line cooks and dishwashers to an average of $23.80 an hour, Whalen said.

Applicants began pouring in nearly overnight, Whalen said. A manager at one of his restaurants, Tempest, told him that 10 people walked in to drop off résumés over the course of one week after the policy change, compared with just 15 people over the four previous months.

Within three weeks, the restaurant group went from about 50 to 60 percent staffed to nearly fully staffed.

“There is no one in Charleston or Charlotte that can compete with what my guys are making,” Whalen said.

Aaron Dearing, a sous chef at Whalen’s 5Church Charlotte, said the tipping initiative had raised his pay by about $1,000 a month — the biggest raise he has received in 20 years in the industry.

“It puts everybody in a better position in their home life, so they come to work a lot happier,” he said.

John Puckett, one of the owners of Punch Pizza, a fast-casual restaurant group with about a dozen locations in the Twin Cities area, said the company experienced a similar boom when it made the decision in April to raise the minimum wage to $15 an hour from $11 as the company sought to fill 30 to 40 positions.

“We’ve seen an explosion of interest,” Puckett said. Job applications increased fivefold on its website and were 10 to 15 times higher on the jobs portal Indeed, he said.

Lexington Co-Op, which operates two grocery stores in Buffalo, is another business that found success by raising wages, from $13 an hour to $15, after having trouble filling about 15 positions in February and March.

Applications had been scarce. New hires who had accepted job offers then ghosted, failing to show for orientation or leaving the job after a few days. The company had begun leaning on high-schoolers to fill the positions.

“We’ve definitely been seeing a lot more candidates show up in their application pool and in orientation every week,” general manager Tim Bartlett said.

‘Investing in your people first’

Many of the business operators interviewed said that the decision to raise their employees’ starting wage was not motivated primarily by altruism or a desire to do right: It just made good business sense.

They said wage increaseswould help attract stronger candidates, reduce turnover and elevate company morale and culture — important for customer-facing businesses such as restaurants.

“We’re going to see savings in retention and turnover, which is so expensive,” said Nicole Marquis, the founder and chief executive of HipCityVeg, a group of fast-casual vegan eateries with locations in Philadelphia and D.C. that recently announced a $15 starting wage. “And this is going to help with recruiting, which will help with our culture — and is really what drives profit at the end of the day and creates a long-lasting brand.”

Other business owners said that they had raised wages to out-compete other companiesfor the best workers.

“We said let’s get way out ahead of this,” said Carl Segal, chief enterprise success officer at the “ghost kitchen” and technology company Reef, which raised its starting wage for its kitchen and grocery workers to $20 an hour in June, up from an average of around $16 to $18. “Let’s take care of the people that are on our team and really take them to the next level — just like they’re helping to take Reef to the next level — and do something amazing for them and their families.”

Most employers The Post spoke withacknowledged the challenges that came from increased labor costs, which already make up an outsize portion of the budget in restaurants and bars compared with other industries.

Three of the 12 businesses interviewed said that they had raised prices for consumers to help offset the wage increase. White Castle increasedmenu prices in the Detroit area after increasing its minimum wage there to $15 an hour, as did another restaurant that raised wages, Brown Sugar Kitchen in Oakland, Calif. The Midwest-basedclothing and design store Raygun increased prices by about 1 percent after raising wages to an average of $15 last year, owner Mike Draper said.

Marquis said that HipCityVeg had not raised prices but that she thought customers would be willing to pay a bit more — 25 cents extra for a burger, for example — knowing employees were paid better.

Oneof the business owners, Gina Schaefer, who runs A Few Cool Hardware Stores, which has 13 locations in D.C., Maryland and Virginia, said that the wage increases led her company to trimsome hours from the staffing schedule — some seasonal positions were left unfilled longer after workers left.

But she credited increasing wages at her stores to $15 an hour with helping her fill 71 positions since March.

“We’re having pretty good success,” she said.

Puckett, of Punch Pizza, said that raising wages had increased labor costs by10 percent. Those costs eat up about 40 percent of sales revenue during normal times, and with a weakened bottom line during the pandemic, that meant that it had wiped out nearly 100 percent of the company’s profits.

But Puckett said the decision was not about short-term gains, even though the company was operating at a loss for the year.

“We are doing this for long-term competitive advantage through delivering more customer delight through engaged employees doing a great job,” he said. “Our business model to focus on the highest quality and service also makes a best-in-class wage structure for employees a good fit.”

For other businesses, increased costs from rising wages did not mean less profit.

While the staffing costs have gone up for the restaurantsin5th Street Group, overall sales also increased, and by a larger proportion, Whalen said. Customer reviews on sites such as OpenTable have gone up by nearly a half a point, too. Better service has translated to more sales and happier customers.

“Our top line is impacted dramatically because people come back and they talk about us,” Whalen said. “All these restaurants that are trying to figure out how to save money? The best way to save money is to make more, just have a better top line. The way you do that is by investing in your people first.”

Len Morris, owner of the Indiana-based staircase manufacturers Viewrail and StairSupplies, which recently raised starting wages to $25 an hour, said that material shortages — certain steels, aluminum extrusions, molds for plastic and rubber — were a much bigger concern for the company than worker availability.

“Wage increases aren’t necessarily driving price increases. Raw-material shortages are driving price increases,” he said. “It’s absolutely the greatest threat to our business.”

Not just pay

Most business owners emphasized that money was just one component of creating an appealing work environment for prospective employees, after a brutal year in which workers in sectors such as retail and hospitality faced high levels of job loss, the constant threat of coronavirus infection and other stressors.

“It’s tough if you have a family crisis and you need to deal with that and you have an employer that says, ‘If you leave to deal with that, you’re fired,’” Raygun’s Draper said. His company has emphasized leniency for workers, in addition to policies such as guaranteed sick time and paid time off.

“We provide an environment where people don’t find themselves in that situation,” he said. “Work doesn’t have to be intractable.”

After White Castle had trouble hiring at its 37 stores in the Detroit area, its wage increase helped bring in more applicants. That also relieved pressure on its longtime staffers, who had picked up shifts to cover gaps amid shortages and turnover, Vice President Jamie Richardson said.

With 362 locations nationwide, White Castlehas opened only about 50 of its restaurants for dining, sticking instead with drive-through service, after employees reported in internal surveys that they felt safer that way.

“Employees are going to judge the places they worked based on what people did when times were toughest. Did that employer stick to the words they put on a poster in the backroom?” Richardson said. “That compact is always changing because times change, but I think the pressure of a pandemic really accelerated that time frame.”

Most of the owners said the political debate in Washington about the labor shortage seemed to present a simplistic view of business challenges — none said that they believed unemployment insurance was solely to blame for hiring hurdles.

“There’s a shaming that’s happening to working-class people,” said Schaefer, the owner of the D.C.-area hardware stores. “Nobody talks about the fact that the economy is going to fall apart when a tech guy gets a $195,000-a-year salary with a 5 percent raise every year, or when lawyers are making $300,000. This conversation only happens when you’re talking about the people who make the lowest wages. And I think as a society, that’s just really insulting.”