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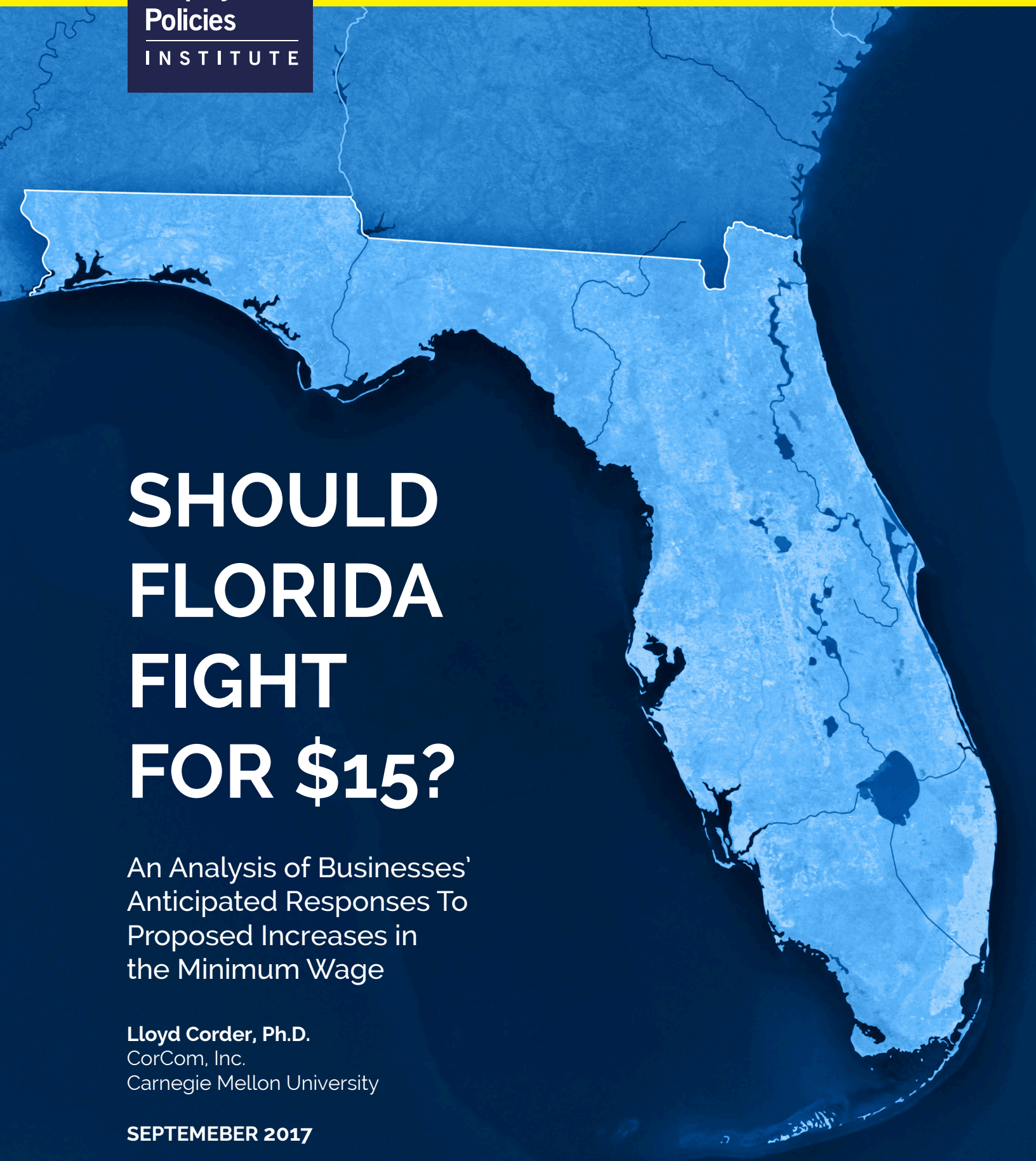

SHOULD FLORIDA FIGHT FOR $15?

An Analysis of Businesses' Anticipated Responses To Proposed Increases in the Minimum Wage

Lloyd Corder, Ph.D.
CorCom, Inc.
Carnegie Mellon University

SEPTEMEBER 2017

The Employment Policies Institute (EPI) is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI focuses on issues that affect entry-level employment. Among other issues, EPI research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPI sponsors nonpartisan research which is conducted by independent economists at major universities around the country.

About Dr. Lloyd Corder

Lloyd Corder, Ph.D. is a senior marketing strategist and researcher with more than 25 years professional experience, with the past 15 operating CorCom, Inc. He serves on the graduate business school faculty at Tepper School of Business at Carnegie Mellon University, where he teaches marketing research, brand strategy and international marketing. In addition to serving on the Department of Communication faculty at the University of Pittsburgh, he is also a frequent keynote and convention presenter. The results of his studies have been printed in over 200 magazines and newspapers, and he has published over 50 business articles on marketing communication, leadership and measuring marketing return on investment (ROI). His book, The Snapshot Survey: Quick, Affordable Marketing Research for Every Organization, is published by Kaplan.

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EXECUTIVE SUMMARY

Across the nation, lawmakers continue to grapple with the viability and impact of increasing the minimum wage to $15 an hour. Last year, the Florida state legislature took up the measure in Senate Bill 6 and House Bill 109, that would begin raising the $8.10 rate, beginning in January 2017. A ballot measure for 2018 or 2020 has also been discussed.

What is the potential impact of raising the minimum wage to $15 in Florida? To better understand how this change would impact companies who have hourly staff, a state-wide telephone survey was conducted with 306 business owners and managers in July and August 2017.

The results of this survey reveal that many of these businesses would be adversely impacted by such an increase:

- **Alarmingly, nearly one-third (30%) say they may be forced to go out of business, with 18% very likely to close.** They do not think they could absorb the increase or pass it along to their customers.

- **Many business owners and managers anticipate that increases will also hurt workers.** Half or more will see operations scaled back and expect to cut employee hours (56%). About as many say they will have staff layoffs (50%). About one-third will likely look for technological alternatives to replace workers (33%) or hire more experienced workers (33%).

- **Consumers will feel the pinch too.** Most businesses will likely increase prices (59%), especially those with tipped employees (75%), ones who operate in the hospitality industry (73%) or ones that are part of a franchise (64%).

- **The argument that it will be easier on businesses if the increases are phased in over time does not seem to hold up.** Nearly half (49%) say they will be forced to make changes (price increases, layoffs, etc.) once the rates reach $11. When the rate reaches $15, two-thirds (68%) expect that they will be forced to respond.

In summary, while an increase in the minimum wage may appear to benefit workers, it will not be easily absorbed by businesses. This, coupled with the expected response from businesses who employ hourly and part-time staff, suggests that Florida should brace for a significant, negative economic impact if minimum wage laws are enacted.

SURVEYING THE IMPACT OF RAISING THE MINIMUM WAGE TO $15 ON FLORIDA BUSINESSES

Like many states and cities, the Florida state legislature is considering raising the minimum wage from $8.10 to $15. The hope is that through gradual increases, more hourly workers will be able to sustain themselves and their families financially.

In 2016, the median hourly wage of Florida residents was $15.77,[1] suggesting that a minimum wage increase to $15 will likely impact a large percentage of of Florida's hourly workforce and could have a broad economic impact across the state.

The issue is whether businesses will be able to withstand such an increase or if they will opt to change operations, reduce staff, cut hours or even cease operations. To better understand how businesses with hourly employees will likely respond to these increases, a state-wide survey of 306 business owners and managers was conducted.

METHODS

Telephone interviews were conducted with 306 business owners and managers who employ workers and hourly workers likely to be impacted by a minimum wage increase, between July 18, 2017 and August 16, 2017. This study has a margin of error of plus or minus six percentage points. Table 1 provides a summary of the demographic profile of respondents.

Participants were contacted through randomly generated lists from various cities and towns across Florida. To qualify for the survey, the business had to employ at least some workers earning less than $12 and have staff working part-time (less than 30 hours per week).

[1] Bureau of Labor Statistics, May 2016 State Occupational Employment and Wage Estimates, Florida.

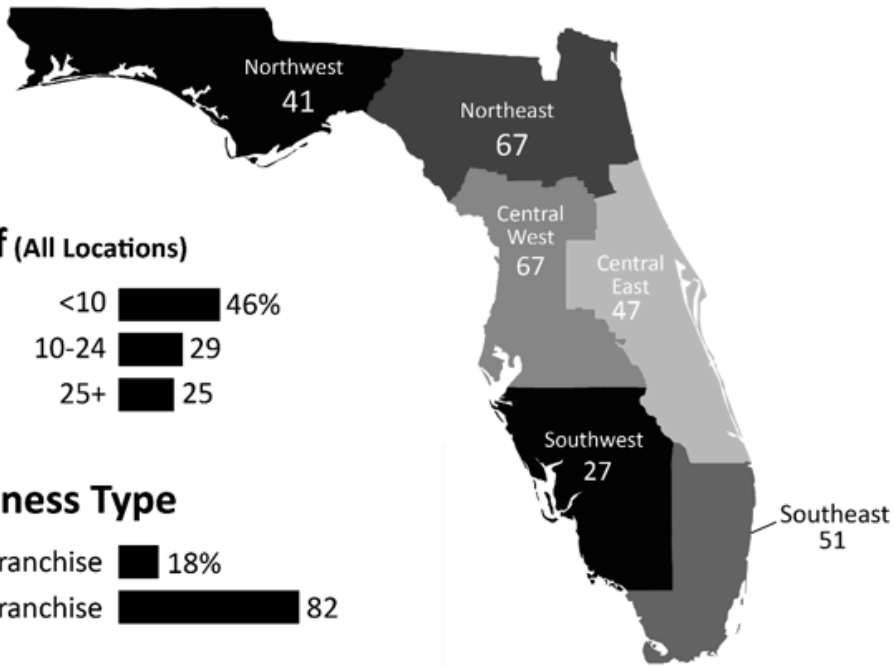
Respondents represented industries more likely to employ minimum wage workers, including hospitality (35%), retail (30%), medical/home health care (13%), manufacturing (8%), professional services (4%), construction (4%), non-profit (3%), education (1%) and others (2%).

In this sample, one-in-five (18%) are franchise businesses, while 82% are not. About half have less than 10 employees (46%) and are single-location businesses (68%). A majority have been in operation for 10 years or longer (71%) and two-thirds say they were profitable during their last fiscal year (67%).

Table 1
Respondent Demographic Profile*

Base: 306

Employer Response by District



Staff (All Locations)

<10	46%
10-24	29
25+	25

Business Type

Franchise	18%
Non-franchise	82

Tipped Employees

Yes	22%
No	78

Years in Business

<10	29%
10+	71

Industry Segment

Hospitality	35%
Retail	30
Medical/home care	13
Manufacturing	8
Personal service	4
Construction	4
Non-profit	3
Education	1
Other	2

Locations Nationwide

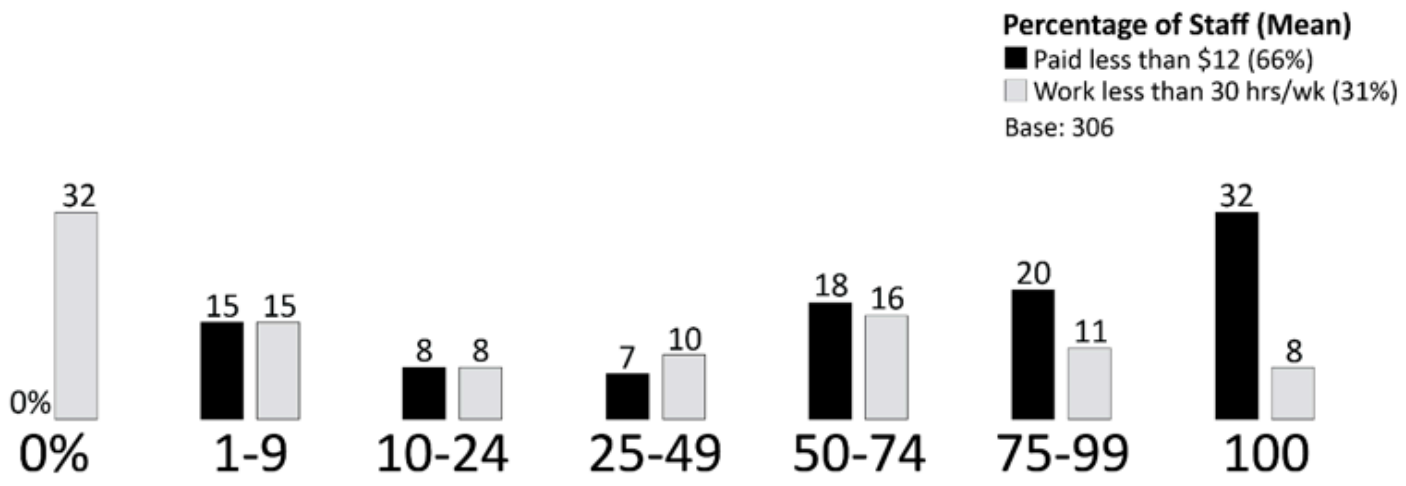
1	68%
2-4	12
5+	15

Profitability (Last Fiscal Year)

Profitable	67%
Not profitable	33

*Note: Refused/no response not shown.

Table 2
Businesses with Staff Affected by $15



Two-thirds have at least some of their staff working part-time (68%) and one-third of all businesses employ half or more of their staff on a part-time basis (35%). The percentage of businesses who have half or more of their staff working part-time increases for franchises (55%), those with tipped employees (52%) and hospitality (50%) businesses, suggesting these firms will be even more impacted than businesses that employ fewer part-time workers.

LIKELY RESPONSES TO AN INCREASE IN THE MINIMUM WAGE

Businesses were asked if the minimum wage was increased as planned, how likely their business would be to respond with price increases, layoff and other steps to counteract the increase. Table 3 shows the percentage of businesses that are "somewhat" and "very" likely to take each action.

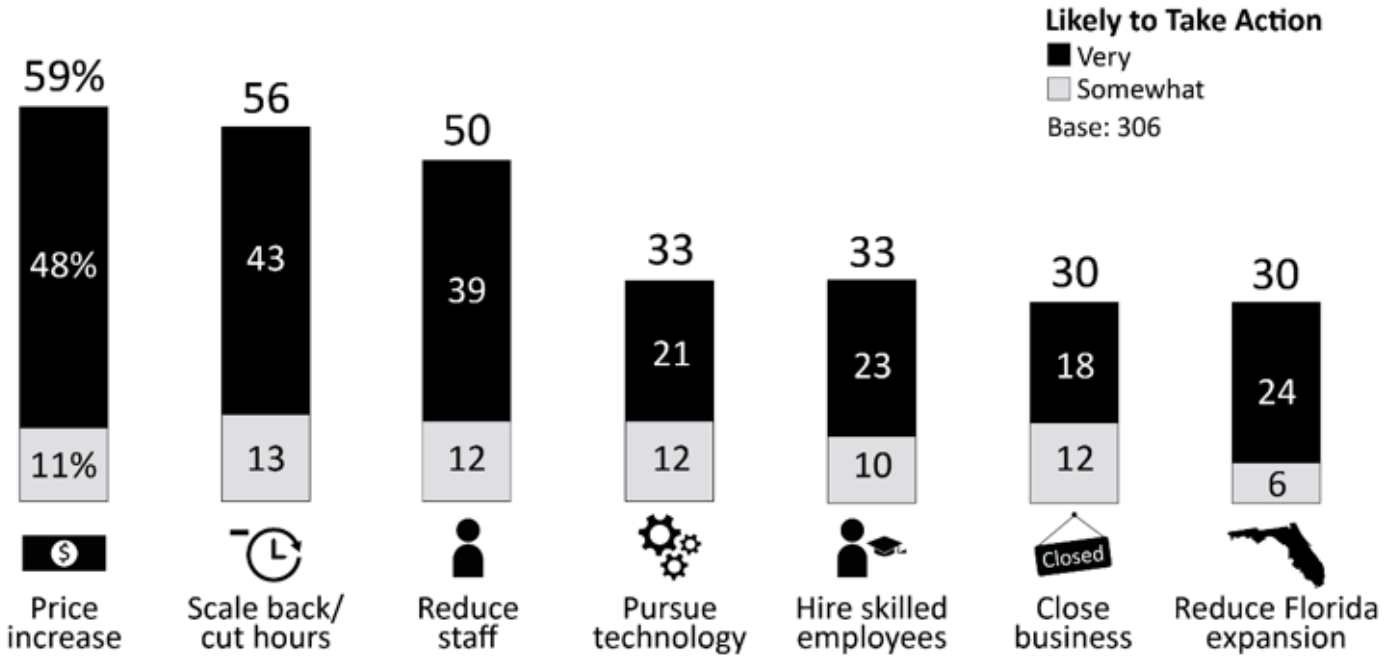
The most likely response to an increase in the minimum wage will be for businesses to raise prices (59%: somewhat, 11%; very, 48%), which may have an unintended impact on customers. Because price sensitivity is unknown, it is unclear whether increases at specific businesses will lead to a reduction in their total customer base and total revenue, which could further confound the problem.[2]

To better understand the workforce that will likely be affected by a minimum wage increase, respondents were asked what percentage of their hourly staff are paid less than $12 and what percentage work part-time (less than 30 hours per week).

Table 2 shows these results and suggests a minimum wage increase will have a significant impact on most of these businesses, with 70% reporting that half or more of their current staff are paid less than $12. This percentage was relatively consistent, regardless of the specific type of business classification.

[2] Based on the principles of price elasticity, price increases often result in some customers electing to stop purchasing products or services from that business or from purchasing at all. If the amount of additional revenue generated by a price increase does not cover the loss of revenue from customers who stop buying, these businesses would be considered "price elastic," because the increase in price would result in both fewer customers and less total revenue. Businesses who are "inelastic" would be able to make price increases and still retain enough customers to be profitable.

Table 3
Likely Impact of $15 Minimum Wage



Additionally, businesses with tipped employees (75%: somewhat, 14%; very, 61%), in the hospitality industry (73%: somewhat, 15%; very, 58%) and franchises (64%: somewhat, 7%; very, 57%) say they are even more likely than are other businesses to raise prices. Because of this, an increase in the minimum wage is very likely to have a direct impact on Florida consumers who frequent these types of restaurants, hotels and other businesses.

Part-time and hourly employees may also be impacted by an increase. More than half of the businesses are likely to scale back operations and cut the number of hours it gives to its workers (56%: somewhat, 13%; very, 43%). Half will likely reduce their number of staff (50%: somewhat, 12%; very, 39%). One-third or less will pursue lower-cost technological alternatives (33%: somewhat, 12%; very, 21%), hire more experienced employees (33%: somewhat, 10%; very, 23%) or reduce any expansions to new locations or operations in Florida (30%: somewhat, 6%; very, 24%).

Especially troubling is the percentage of businesses that say they will close (30%: somewhat, 12%; very, 18%) if the wage increases are enacted. (In verbatim responses, 18% also indicated they are likely to close). Notably, more businesses who said they did not turn a profit in the last fiscal year say they are likely to close or go out of business (44%: somewhat, 20%; very, 24%), compared to those businesses that did earn a profit (23%: somewhat, 8%; very, 15%). While it should be expected that unprofitable businesses would be negatively impacted, this finding suggests that even some of the profitable businesses may fail. The owners and managers suggest that their profit margins are so slim that an hourly increase in the minimum wage of 85% from $8.10 to $15 may cause them to collapse.

If the state tip credit of $3.02 remains the same, the minimum wage for tipped employees would rise to roughly $12.00 an hour. Several businesses with tipped employees say they will likely take one extra step and would eliminate tipping altogether or add a service charge to help cover the wage increases (40%: somewhat, 14%; very, 26%).

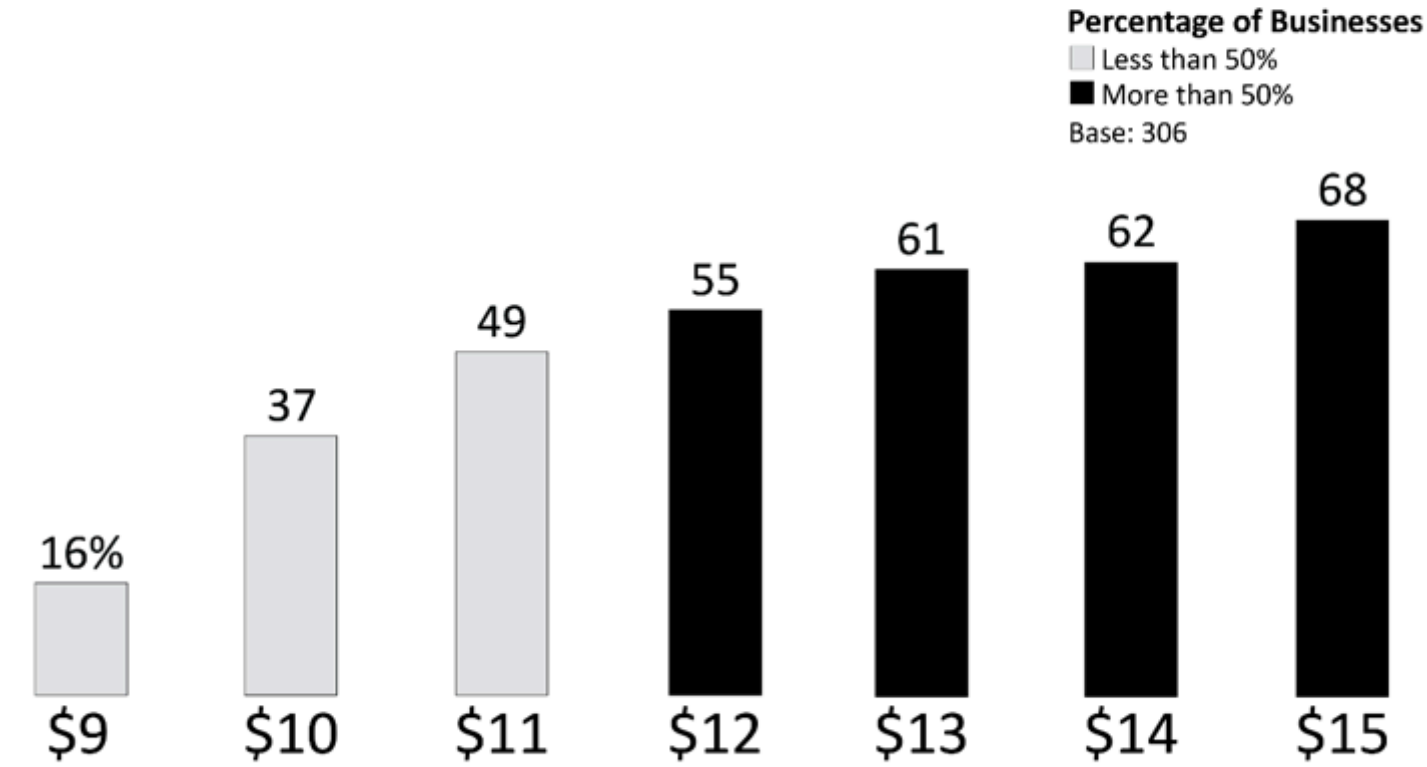
THE TIPPING POINT: MINIMUM WAGE AMOUNTS THAT WOULD TRIGGER LIKELY RESPONSES

One strategy for increasing the minimum wage to $15 is to phase increases in over time. To better understand how quickly businesses might begin implementing price increases, reducing staff or making other changes, respondents were asked at what minimum wage dollar amount they would be forced to respond to the increase. Table 4 presents these results and shows the total percentage of businesses who would act with each dollar added to the minimum wage.

The data suggests that businesses will respond quickly with one-third (37%) at $10 and nearly half (49%) at $11. Hospitality businesses and those with tipped employees will likely respond sooner. For example, nearly two-thirds of hospitality businesses (63%) and 61% of companies with tipped employees say they will act at the $11 rate. When the rate eventually reaches $15, two-thirds of all businesses expect to have implemented changes to respond to the wage increases (68%).

Table 4

Minimum Wage Increases that Would Trigger Response



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