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8/1/2024

Gaining the Upper Hand on Unintended Consequences

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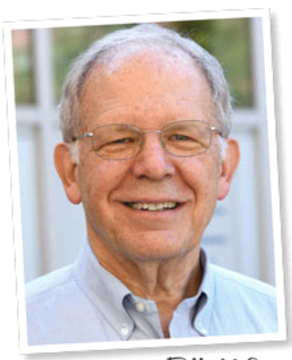

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“In dealing with the general population, 5% of them are wacko. In California, where I’m from, it’s 15%.” This comment always made audiences laugh at the expense of The Golden State and me. Today, it’s an underestimation of the danger of “unintended consequences” that swiftly cross state lines. Let me explain.

The California legislature passed a minimum wage for fast food workers ($20/hour) and health care workers ($25/hour). Legislators were warned of the economic impact, but they ignored it when putting the $47+ billion budget deficit together and postponed the healthcare increase. Its additional $4 billion cost increase to state medical costs were logical to postpone.

The unintended consequence from California’s minimum wage boost for fast food workers is that it can boost all wages. In summer, when it’s hot and sweaty outside, how do garden center employees feel if they see McDonald’s offering a job in an air-conditioned building for $20-to-$22/hour?

Different California retailers had these responses:

A. Some said it hadn’t been felt yet. They were waiting for employees or applicants to bring it up.

B. Some said they already adjusted their pay scales, reduced some hours, but found a silver lining in that they seemed to get a better quality of applicant, allowing them to replace existing workers who weren’t as productive.

C. Some faced the industry issue head on. “Do you want to work where you kill people with your fatty product or do you want to help customers engage in beneficial activities like gardening and growing their own food?” They felt eventually they may have to adjust their wage scales, but they could hold back the trend awhile. They also were doubling down on the benefits of our industry, including helping customers and employees be and stay healthy.

D. Some are refocusing on automation and streamlining. What cost reductions can be realized by outsourcing to a more productive organization? Some said they would review payroll, bookkeeping and advertising. “Grow it versus buy it” will be reevaluated as larger growers have more automated growing ranges, which might result in lower overall costs.

The classic definition of inflation is paying more for the same thing, higher costs with no increase in productivity. Here’s how you get ahead of this unintended consequence of minimum wage increases: Plan for it and make it happen now.

Quoting the owner of a Canadian comic book store isn't the norm for garden center magazines, but Paul Landry of Montreal's Crossover Comics, has an interesting process. As soon as any changes in the minimum wage are announced, he immediately adjusts his wages, not waiting for the government to force the change. He tells his people they're good, better than the minimum and pays them accordingly. He gets ahead of the rest of employers and makes sure his team know it.

It's likely that wages and fringe benefits (and other costs) will rise. The wise operator today is looking for ways to be more effective. Assume certain
employees are on vacation. Would you need to replace them until they returned or could you find a way to get along without them? How could you reassign tasks to accomplish what they used to do? Using this analysis, consider eliminating that position and using the savings to fund payroll increases or automation investments. It's important for your team to understand that, yes, they'll possibly be working harder, accomplishing more and, yes, they'll be getting an increase in compensation for it.

The news is full of retailers announcing store closures. Some announcements, like Walgreens and 7-11, are from large companies that had unsustainable operational costs. Don't let this happen to your garden center. Instead, plan now how you'll deal with increased hourly rates for employees. It's coming your way. Prepare now, with your team in place and everyone's attitude adjusted for success in the brave new world where we'll find ourselves from now on.
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*Bill would love to hear from you with questions, comments or ideas for future columns. Please contact him at wmccurry@mccurryassoc.com or
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