investing in your employees:

a shift in mindset beyond compensation for retailers

In the last two years, cities and states have made headlines by establishing a $15-per-hour minimum wage for businesses operating within their geographic limits and retailers announcing they will hike their minimum wage for hourly employees up to $15-per-hour over the coming months or year. Additionally, federal legislation has been introduced to raise the minimum wage from $7.25 to $15.00 an hour. According to HR Executive, this would likely reduce the financial stress of lower-paid workers.

However, for retailers, the challenges in today's labor market go far beyond increasing wages. Though present before this COVID-19 crisis, and likely increased now, there are five specific trends, now concerns, that can be seen:

1. Store closures

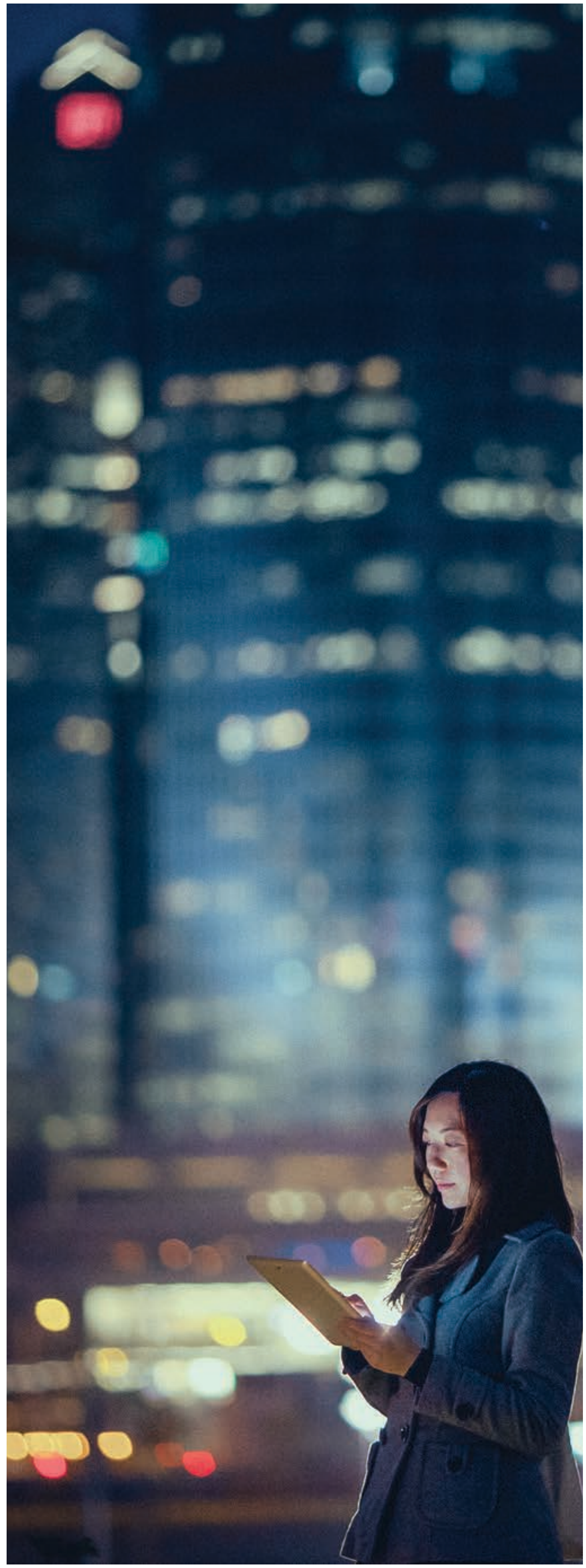
It has become more challenging than ever to lease retail space, but is the in-store model actually dead? Retail brick and mortar clients are embracing online as one more sales channel to generate revenue and create share in a customer's wallet.

2. Changing consumer spending habits

Along with diversification of consumers, and a continued bifurcation of the top 20% of earners versus the rest of the population, we're seeing an increase in nondiscretionary spending, such as increased debt from education, that is significantly impacting consumer spending habits.

3. Artificial intelligence (AI) and automation

Technology is helping to create a customized buying experience and get products into our hands faster. Shifting jobs from being behind a cash register to instead allowing retailers to have sales associates interact with their customers helps create a customer experience in the showroom. It also simplifies everyday tasks such as scheduling, inventory review, and making customer recommendations based on buying patterns.



4. Rethinking rewards

While a $15-per-hour wage is grabbing attention, employers are realizing traditional compensation alone is not always enough. It is critical to develop an overall employee experience, including flexibility and incentive eligibility to help attract and retain talent.

5. Shifting workforce demographics

At least 20% or more of the workforce is a part of the millennial generation — the largest generation in the workforce. If you're not connecting with this group, your shortage of talent is going to increase. These individuals want to be connected to their organization's mission, to their own purpose and aspirations, and to one another. Therefore, it's critical to pay attention to the networks, affiliations, and ecosystems that are important to millennials as well as to gen z, and be intentional in fostering communities.

What we heard

Mercer's Retail Compensation and Benefits survey, now in its fifth year, includes more than 170 Fortune 1000 company retailers. Prior to the global COVID-19 pandemic, Mercer conducted a $15-per-hour wage survey of these 170 retail survey clients to help better understand:

- The reasons driving companies to establish a $15-per-hour wage (or not to)
- The timing for implementation of wage increases
- The funding for the increase in wages

Reasons – supply and demand

More than half of the participants told us that the # 1 and # 2 drivers for implementing a $15-per-hour wage were competition for and availability of talent, respectively. For some retailers, even in this competitive labor market, the number of job applicants are still exceeding the number of openings, even at lower rates of pay. Because of this, they don't necessarily see the need to implement the $15-per-hour wage.

Though retailers are certainly changing their interaction with consumers by relying on new technology, when asked to rank how new technology was impacting the wage rate, most did not indicate it to be a significant driver.

When presenting the survey results to participants, we facilitated further discussion on how they ranked the drivers. Though most retailers are prepared to pay for the $15-per-hour experience in a low unemployment labor environment, location does influence how soon they plan to increase wages as well as other benefits they are providing in lieu of wage increases.

Reasons – location and competitors

For those employers with locations in California, Hawaii, and Seattle, most have already implemented a $15-per-hour or higher wage. However, for employers with locations outside of these areas, participants are only paying more than minimum wage when the competitive landscape requires it. If the available talent still outranks the demand, then there's no need to pay above minimum.

In some instances, though, the need to pay more is driven by an expanded set of competitors. Retailers looking for hourly talent are now having to compete with companies such as Amazon who have significant distribution centers located across the country. They're paying above minimum wages for entry-level roles and often offering additional rewards and perks not traditionally available for these types of jobs.

Reasons – new benefits and rewards

An increasing number of companies are making more part-time workers eligible for benefits, rather than increasing wages.

Additionally, companies are relying more on workforce planning techniques to create alternatives to the typical 8-hour shifts. By doing so they are providing a better work-life balance and flexibility to employees while still meeting customer demands based on typical traffic.

Some companies are testing differing uses of variable pay programs in lieu of annual hourly increases. This variable pay approach allows them to set performance targets that drive business performance, allowing the employees' total earnings to increase, without increasing fixed labor costs.

Reasons – offering opportunity

As demographics and buying habits are shifting, retailers have had to consider how this impacts the skills they need to deliver the right experience to customers. Even with all the advances in technology, retailers are finding that stores cannot be fully automated. Though some parts of the interaction with customers can be made more efficient by digital advances, customer engagement is critical to sales jobs as the customer wants to have an experience when they visit a store. Customers come to a store to interact and engage with product via employees. Retailers are attempting to provide development opportunities to enhance the skills of what used to be a "sales clerk," for example, to now use more soft-skills and even critical thinking to enhance the customer interaction. Similarly, for warehouse and operations positions, as processes and workflow become more automated, the staff in these roles are being provided training to enhance their technical skills.

Reasons – compression

One challenge that was not polled in the survey, but that was repeatedly mentioned by the survey participants and other retailers was the concern of compression due to increased legislation. Often, a new hire is compensated at a higher wage than tenured employees. Retailers are not unique in that they want to retain their workforce as it reduces the cost of turnover and establishes their brand. Yet it is a real struggle for retailers to keep ahead of the compression as any change in legislation results in a review of compensation.

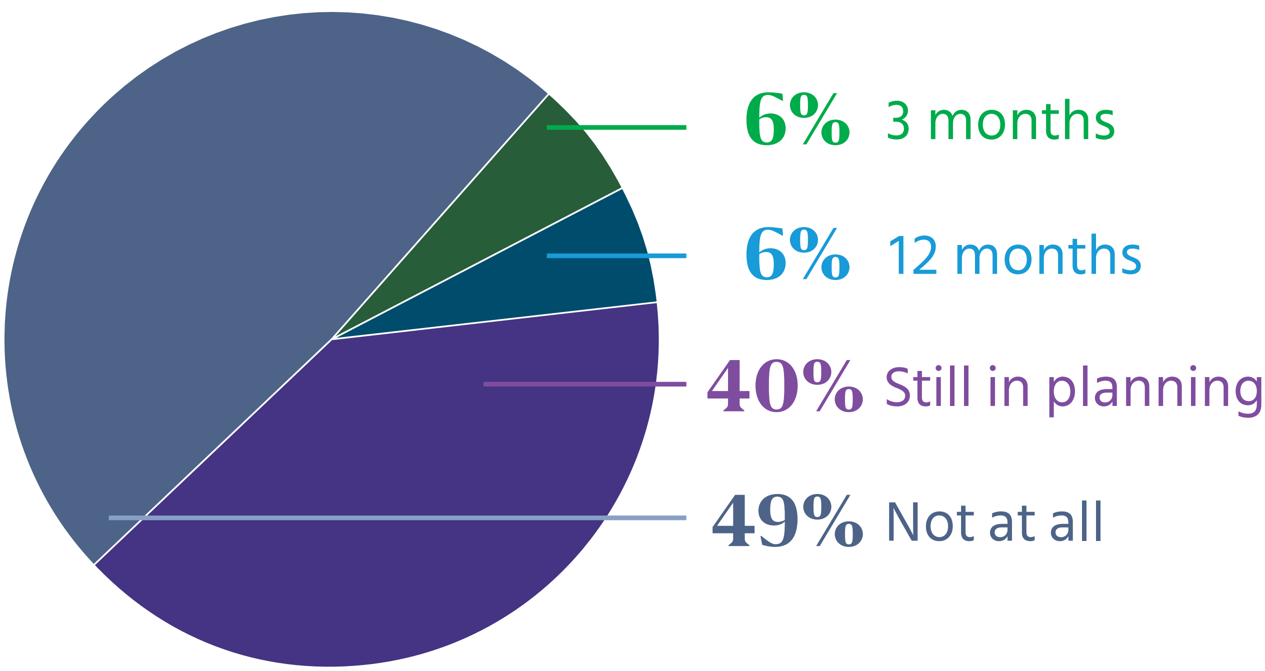
So, as you can see, whether or not you need to heed the call and pay a $15-per-hour minimum is really a multi-faceted question. For many retailers, it's not necessary. You need to start by truly understanding your competition — who are you competing with for applicants, both inside and outside of the retail space? What are those competitors offering in terms of wages, benefits, and career development? With this more holistic understanding you can then decide whether or not you need to increase the hourly rate or perhaps provide other rewards or career opportunities to attract job candidates.

Timing

When we asked participants to explain when/if they were planning to voluntarily implement a $15-per-hour wage, and when/if they would be implementing, 49% indicated that they are not even considering voluntary implementation. Another 40% of respondents indicated they are in the planning process but were not willing to say they would be implementing the increase in the next 12 months.

Are you considering voluntarily implementing a $15 per hour wage? If so, when? (n = 53)

The move to $15 per hour wage for most participants will happen but timing is different for each. Slightly less than half will do something in the next 12 months or indicated to be in planning stages with no timing indication.



Funding

In the event of increasing wages, survey participants' stated they would absorb the increases in labor cost. When asked if this could result in higher prices to the consumer, participants responded that the increased costs was part of doing business and it was an investment to the organization.

A Shift in mindset

While the $15-per-hour topic will continue to be discussed, it has brought business leaders and Mercer together to create a shift in mindset in how we invest in our critical hourly employees. A compelling employee experience can be achieved through more than compensation. For example:

- Fund investments that build employee skill capability through online open courses like EdX and General Assembly as a means to deliver this development in a personalized learning environment.
- Use of workforce analytics to study customer patterns allows for coordinated work schedules aligned to employee availability and customer needs. It's an opportunity to find the revenue generation point where consumer demand and employee availability meet.
- While base wage is important, companies are also looking at a broad set of rewards like variable pay through cash incentives and voluntary benefits as additional options.

Are retail companies falling behind competitively by taking a wait-and-see approach to a change in wages? Mercer's point of view is to use tangible solutions to build an organization where employees can thrive through a competitive rewards offering. Retail is a fast-moving business existing at the whim of the customer. A successful retail company measures how it spends its money and remembers an employee's experience is the intersection of the employee's expectations, their environment, and the events that shape their journey within an organization.

For more information on the going rates of pay within the retail industry take a look at Mercer's various **Retail Compensation and Benefits surveys** or give us a call at 855 286 5302.

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