



Statement On behalf of the National Restaurant Association

ON: KEEPING UP WITH A CHANGING ECONOMY: INDEXING THE MINIMUM WAGE

TO: U.S. SENATE COMMITTEE ON HEALTH, EDUCATION, LABOR AND PENSIONS

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**Statement on
Keeping up with a Changing Economy: Indexing the Minimum Wage**

**Before the
U.S. Senate Committee on Health, Education, Labor and Pensions**

**By
Melvin “Mel” Sickler, Multi-store Franchisee, Auntie Anne’s Pretzels and Cinnabon,
Williamstown, New Jersey**

**On behalf of the
National Restaurant Association**

March 14, 2013

Chairman Harkin, Ranking Member Alexander, and members of this Committee, thank you for this opportunity to testify today on behalf of my businesses and the National Restaurant Association.

My name is Mel Sickler. I am a multi-store Auntie Anne’s Pretzels and Cinnabon franchisee owner from Williamstown, New Jersey. I have 109 employees, 18 are full time and 91 are part time employees

I drove from New Jersey to be here today, on behalf of small businesses and young people seeking more job opportunities. In that spirit, I ask Congress not to increase the minimum wage.

As I understand it, legislation recently introduced, The Fair Minimum Wage Act of 2013 (S. 460), would increase the federal minimum wage rate from \$7.25 an hour to \$10.10 per hour. Additionally, it would raise the cash wage for tipped employees from \$2.13 today to 70% of the non-tipped minimum wage. If this legislation were to become law, it would create a new hardship, particularly on small businesses, at a time that many of us are attempting to contribute to economic and job growth in a weak economy.

In 1977, after making a difficult decision to leave the family farm, and a career in farming, I started, operated, and then sold, two separate service businesses. Then, in 1992, my wife, Ginny, and I, after an extensive search of many different kinds of franchises, went all in financially, and purchased our first Auntie Anne’s Pretzels franchise. We were looking for a business that we both could be involved in and chose Auntie Anne’s.

Twenty years later, we own and operate ten stores in New Jersey. Not only are the two of us working in the business, but our three children are involved as well. Our business plans for the future are very similar to what they have been from the beginning—slow, steady, deliberate growth by adding more locations. Our growth provides job opportunities for new hires, and creates advancement opportunities for deserving individuals currently working in our stores.

MY SMALL BUSINESS IS TYPICAL IN THE RESTAURANT INDUSTRY

The National Restaurant Association is the leading business association for the restaurant and foodservice industry. The Association's mission is to help members build customer loyalty, rewarding careers and financial success.

Nationally, the industry is made up of 980,000 restaurant and foodservice outlets employing 13.1 million people—about ten percent of the American workforce. Despite being an industry of mostly small businesses, the restaurant industry is the nation's second-largest private-sector employer.

We are a unique industry. First, we are dominated by small businesses. More than seven in 10 eating and drinking establishments are single-unit operations. Overall, the restaurant industry also operates under relatively low profit margins—roughly four to six percent before taxes. I know from experience, which is corroborated by the data, that labor costs are one of the most significant line items for restaurants.

THE RESTAURANT INDUSTRY IS HELPING GET AMERICA BACK ON TRACK

The restaurant industry was not immune from the effects of the last recession, with job losses in 2009 and 2010 representing just the second and third years on record that the industry cut staff. However, the restaurant industry is now on a rebound, with the January 2013 employment level up 8.8 percent from the bottom of the cycle. In comparison, total U.S. employment was up only 4.3 percent from the recession, as of January 2013.

The restaurant industry has been an engine of growth for the nation's employment recovery for the last several years, according to figures from the Bureau of Labor Statistics (BLS). This trend has been particularly evident during the current recovery from the recession, as restaurants have been the third-largest private-sector job creator since the recovery began in March 2010.

Eating and drinking establishments—the primary component of the restaurant industry which accounts for roughly three-fourths of the total restaurant and foodservice workforce—added jobs at a strong 3.4 percent rate in 2012. As of January 2013, total restaurant employment was 441,000 jobs above its high-point before the recession, while the overall economy was still down 3.2 million jobs from its pre-recession peak.

OUR INDUSTRY GIVES MANY THEIR FIRST START

Our industry provides millions of Americans with their first job and the critical skills needed for a successful and rewarding career. In fact, one out of three adults got their first job experience in a restaurant.

While it serves as the gateway for many young people to enter the workforce, it also provides easier ways for advancement, regardless of your background. Thus, our industry has become very diverse at all levels. For example, restaurants employ more minority managers than any other industry and 50% of restaurant owners are women.

Wages in our industry also grow at rates above those of the overall economy, according to figures from the Bureau of Labor Statistics. While an Auntie Anne's crewmember may start at age 16 with no prior work experience, if my managers see diligence, pride and a good work ethic, they quickly raise that young person's wages.

MINIMUM WAGE WORKERS ARE YOUNG AND A SMALL PART OF THE INDUSTRY

A majority of minimum wage workers are employed in industries other than restaurants. According to the Bureau of Labor Statistics, 3.8 million individuals earned at or below the federal minimum wage of \$7.25 an hour in 2011. Of these, 45 percent (or 1.7 million) work at eating and drinking establishments. In addition, 60 percent of the 1.7 million restaurant workers who appear as earning at or below the federal minimum wage are servers, which means their total earnings are above the minimum wage when tips are included.

Thus, excluding servers, only 340,000 earn minimum wage and 344,000 of restaurant workers appear under BLS data to earn below the federal minimum wage—jointly representing only 7 percent of the total eating and drinking establishments' workforce in 2011. At the same time, government agencies employ 204,000 workers that earn at or below the minimum wage. Many of those 684,000 restaurant workers appearing in BLS to be earning minimum wage or below also share on tips, so, in reality, they earn more than the minimum wage.

I do understand that there are certain individuals, such as student-learners (vocational education students) and individuals with productive impairment capacity, who can be paid less than the federal minimum wage of \$7.25, as is the case with young people for the first 90 calendar days after they are first employed. However, I do not go lower than the minimum wage for any of my employees, including teenagers during their first 90 days of employment. My approach is also the common practice in the industry, as the numbers attest.

Still, it is not hard to understand why Congress would create these incentives for employment at less than the minimum wage for some categories of workers to prevent the loss of employment opportunities for these individuals. In fact, even unpaid entry-level work can be valuable, as is the case with most Congressional internships. Young workers at minimum wage in the restaurant industry are gaining valuable entry-level experience—while being compensated for it.

MY CREWMEMBERS DESERVE A CHANCE TO BE IN THE LABOR MARKET

These young workers, who, if they're like my typical crewmember, are eager to enter the workforce. And they deserve the opportunity to do so. They deserve the opportunity to start as soon as possible, learning the skills needed to succeed in life that only a job can provide.

The vast majority of minimum wage restaurant workers are young. Forty-six percent of federal minimum wage restaurant workers are teenagers, while 70 percent are under the age of 25—most of them, 80 percent, working part-time. The majority of restaurant workers who earn the federal minimum wage are also not the heads of their households, which probably explains why the average household income of restaurant workers earning the federal minimum wage is \$62,507, according to BLS data.

HIGHER MINIMUM WAGE MEANS FEWER JOBS

Given the experience in states that have raised their minimum wages above the federal rate, we know the impact The Fair Minimum Wage Act of 2013 would have, if enacted, on the availability of jobs in my industry.

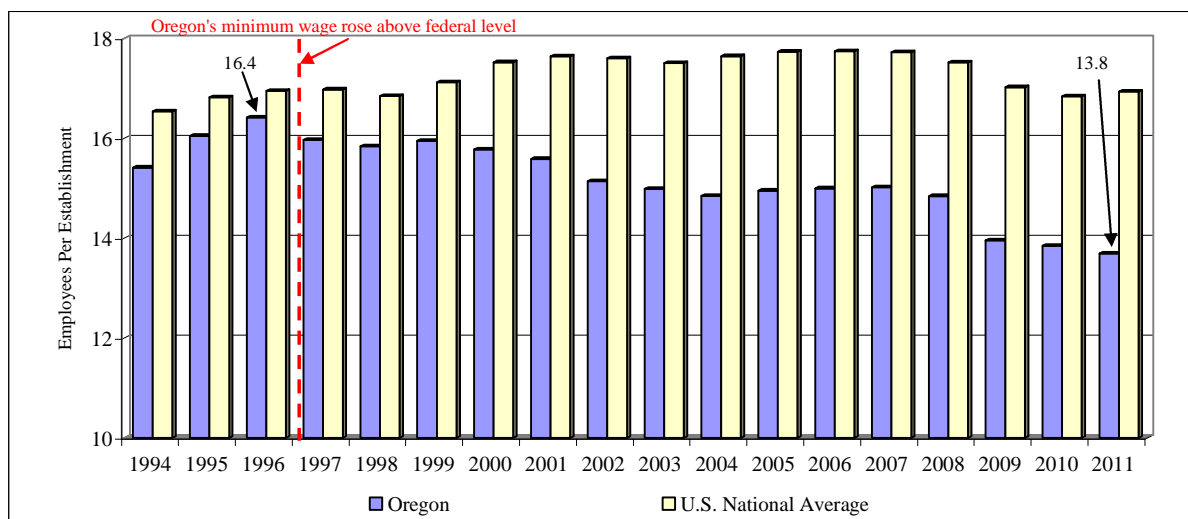
For example, Oregon's state minimum wage is now \$8.95, more than a dollar less than what is being proposed in The Fair Minimum Wage Act of 2013. After peaking at 16.4 employees per establishment in 1996, the average number of workers in Oregon's restaurants declined steadily.

By 2011, Oregon's restaurants employed an average of only 13.8 workers, or 2.6 fewer employees than they did before the state's minimum wage began rising above the federal level in 1997, according to analysis of data from the Bureau of Labor Statistics.

In comparison, as shown in the chart below, all restaurants in the U.S. employed an average of 16.9 workers in 2011, unchanged from the 1996 level. If Oregon's average staffing levels had remained at its 1996 level of 16.4 employees per establishment, the state's restaurant industry would have employed an additional 23,500 individuals by 2011. This result in other states with minimum wages higher than the federal minimum wage is similar.

Number of Employees Per Restaurant in Oregon Steadily Declined After the State Minimum Wage Rose Above the Federal Level Beginning in 1997

Number of Employees Per Eating & Drinking Place Establishment: Oregon vs. U.S. National Average



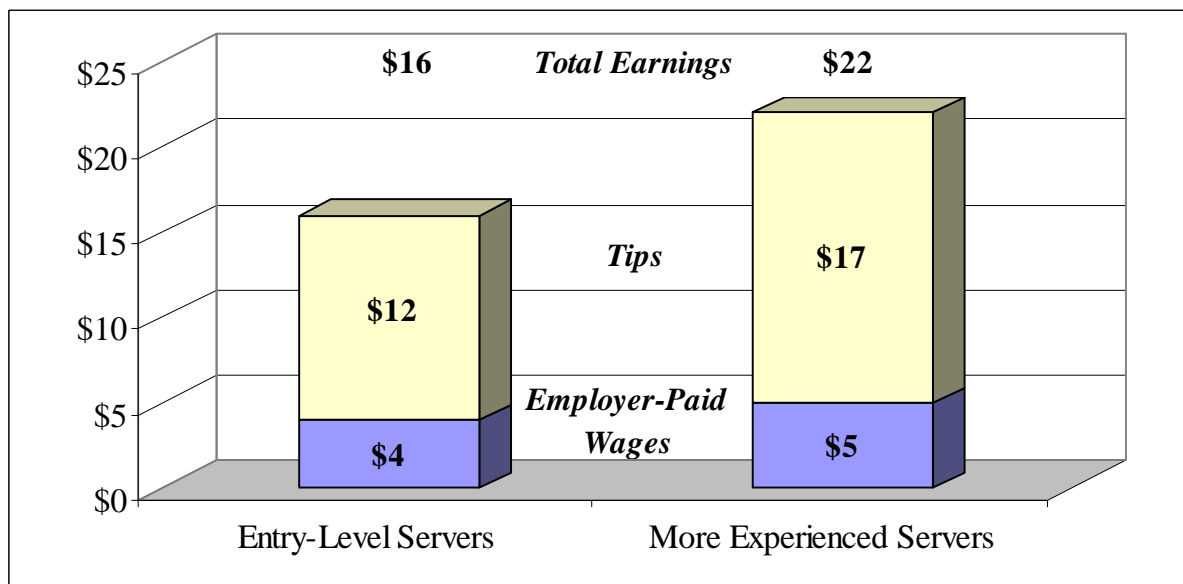
Source: National Restaurant Association analysis of Bureau of Labor Statistics data

TIPPED EMPLOYEES ARE WELL COMPENSATED

Due to our business model, I do not have tipped employees, but because The Fair Minimum Wage Act of 2013 would also increase the cash wage for tipped employees from \$2.13 today to 70% of the non-tipped minimum wage, I would like to offer some data on behalf of the National Restaurant Association.

On a national level, the median hourly earnings of waiters and waitresses range from \$16 for entry-level servers to \$22 for more experienced servers. Median hourly tips received by waiters and waitresses range from \$12 for entry-level servers to \$17 for more experienced servers. The median hourly employer-paid wage ranges from \$4 for entry-level servers to \$5 for more experienced servers. Thus, once again, it seems that this legislation is a solution in search of a problem that does not exist.

Median Hourly Earnings of Waiters and Waitresses
United States



Source: National Restaurant Association, December 2011 Survey

BOTTOM LINE IMPACT OF AN INCREASE IN THE MINIMUM WAGE

Food and labor costs are the two most significant line items for a restaurant, each accounting for approximately 33 cents of every dollar in sales. With average pre-tax margins of roughly 4 to 6 percent, increases in food and labor costs can have a dramatic impact on a restaurant's bottom line.

Like many other business owners, I am preparing for the impact that the new healthcare employer mandates will have on my business. In fact, I am still trying to figure out whether I have 50 full-time equivalents, which is what would trigger most of the penalties and employer

mandates. If a 39 percent minimum wage increase is added to this burden, my labor costs will soar.

The chart below illustrates the impact that an increase in the federal minimum wage from \$7.25 to \$10.10 would have on a restaurant's bottom line—not considering any additional costs from the new healthcare law.

While, in theory, it may sound to some as a good idea to increase the starting wage, the ramifications go much further. If I increase the wage that I pay entry level employees by \$2.85, then I also have to give a \$2.85 raise to my employees that are making \$10, \$12, and even \$14 an hour. Otherwise, it would not be fair to these employees who have been with me for several years and worked their way up the ladder.

I would love to give all of my employees a \$2.85 raise, but the reality is I simply cannot afford it. In fact, if the starting wage was increased to \$10.10, then, approximately, 75 percent of my employees would end up getting a \$2.85 an hour pay increase. That would result in a 22 percent jump in my labor costs, which would be very difficult for my business to withstand.

As a result of a 22 percent increase in labor costs, pre-tax income plunges 58 percent for an average restaurant operation. Prior to the minimum wage increase, pre-tax income represented 4.4 percent of sales for an average restaurant, or \$39,500, in the example below. After factoring in the sharp increase in labor costs, pre-tax income fell to only 1.7 percent of sales, or \$16,500.

This analysis does not even account for any increases in food, health care, or energy costs, which have been rising steadily in recent years. It would only take a 6 percent increase in food costs for the pre-tax profit to turn into a loss. This is a likely scenario, as wholesale food prices jumped 16 percent in the last 3 years, according to the Bureau of Labor Statistics.

To handle this negative impact to the bottom line, some will say that restaurants simply need to increase their menu prices and pass the added costs on to their customers. The reality is that I will lose business if I increase menu prices in this challenging economic environment, because most of my customers will just not buy from me.

And as the chart below shows, even a 5 percent increase in menu prices will not be enough to account for such a sharp increase in labor costs. That assumes that a 5 percent menu price increase would even be possible, which according to the Bureau of Labor Statistics hasn't happened since 1982.

Instead, most restaurants will be forced to reduce their employees' hours, postpone plans for new hiring, and/or reduce the number of employees in their restaurants. Additionally, businesses, such as mine, will become much more restrained in terms of future growth and expansion. Only a small minority of restaurants will be able to handle a 39 percent minimum wage increase without taking actions that will harm workers.

Bottom Line Impact of an Increase in the Federal Minimum Wage to \$10.10*
Typical Restaurant With Annual Sales of \$900,000

	<u>Before</u>	<u>Public Policy Impact</u>	<u>After</u>
INCOME			
Food and Beverage Sales	\$900,000	Menu Prices ↑ 5%	\$945,000
EXPENSES			
Cost of Food & Beverage Sales	\$288,000	Food Costs ↑ ??	\$288,000
Salaries, Wages & Benefits	306,000	Labor Costs ↑ 22%	374,000
Utility Costs	31,500	Energy Costs ↑ ??	31,500
Restaurant Occupancy Costs	63,000		63,000
General/Administrative Expenses	27,000		27,000
Other Expenses	145,000		145,000
Total Expenses	\$860,500		\$928,500
PRE-TAX INCOME	\$39,500	Pre-Tax Income ↓ 58%	\$16,500
(Percent of Total Sales)	4.4%		1.7%

Source: National Restaurant Association calculations

*Also includes an increase in the cash wage for tipped employees to 70% of the federal minimum wage

WHY MAKE IT HARDER FOR ME TO GIVE YOUNG PEOPLE A CHANCE TO WORK?

My managers and I are hearing from more people seeking work these days. And I am not a public speaker or care much for politics, but I came here to testify because I do not understand why anyone would want to make it harder for small employers like myself to hire more deserving people. Instead, I would ask you to focus on policies that encourage more people, not fewer, to enter the workforce. Our collective goal should be to get our young people hired and on the path to achieving the American Dream.

With our current 23 percent teen unemployment rate, which is nearly 25 percent in my home state of New Jersey, increasing the federal minimum wage is like throwing an anchor to a drowning man. The National Restaurant Association looks forward to working with this Committee and all of Congress on issues to improve the wellbeing of our employees without sacrificing their jobs in the process.

Thank you for this opportunity to explain the added burden that increasing the minimum wage would have on my business, and the restaurant industry.