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WHY SMALL FIRMS ARE GIVING OUT 15 PERCENT PAY RAISES

Wage growth is approaching that of bigger companies, in part to keep poaching at bay

By Ruth Simon
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As the job market tightens, many small-business owners are racing to boost pay to keep experienced hands from jumping ship.

Robert White typically gives raises of 1.5 percent to 3 percent at Dahlstrom Roll Form, a 113-year-old manufacturer of steel products in Jamestown, N.Y. But over the past three years, workers have received increases in pay and benefits totaling about 10 percent annually.

Mr. White, the company's president, calls the raises "a proactive strike" designed to keep his 35-person team in place. "Business is better, so we are able to do it," he added.

Even with the latest increases, wage growth at small firms is only now approaching that of larger companies, which typically pay more than small firms. The increase is being fueled by heightened demand for employees and websites like PayScale and Glassdoor that make it easier for both workers and bosses to see what competitors pay.

Wage growth for existing employees accelerated by 1.07 percent annually over the past three years at companies with fewer than 50 employees, according to an analysis of ADP data by Moody's Analytics for The Wall Street Journal – well above the 0.69 percent average increase for firms of all sizes over the same period.

Small businesses are feeling the pressure, Mark Zandi, chief economist of Moody's Analytics, said. "They have to work harder to keep employees now that the labor market is tight."

There were 5.7 million job openings in May, the latest month for which data were available, according to the U.S. Bureau of Labor Statistics.

According to a June survey of roughly 800 companies by the Journal and Vistage Worldwide Inc., 58 percent of small-business owners reported increased difficulties finding needed workers. Many have responded by boosting pay or benefits, while others have stepped up training or slowed the pace of growth.

Craig Zoberis, president of Fusion OEM, a contract manufacturer outside Chicago, has raised hourly pay for entry-level workers by \$1 for each of the past three years. Over the past two years, he has also stepped up efforts to reward the best employees on his production floor, who can now see their pay jump by as much as 73 percent over a four-year period.

"With the competition going on for top employees, we had to meet and exceed what the marketplace is looking for," he said.

But rising pay is also burdening small firms, which typically operate with thinner margins than their bigger competitors. With wages up, "there are things we are scrimping on," said Julie Irwin, owner of Spectrum Building & Restoration Corp. and a Servpro franchise in Bend, Ore., which recently gave new and existing employees raises of as much as 10 percent to 20 percent to keep competitors from poaching them.

She has been forced to delay purchases of new vehicles and tools for the 23-person contracting firm, which specializes in fire and water damage cleanup and restoration. "We are making do with what we have," she said.

Younger workers – those under age 35 – are capturing the biggest pay increases, according to the Moody's Analytics analysis.

At Gold Systems Inc., a software firm in Salt Lake City, Utah, "year two and year three salaries are much higher than they used to be," said owner Dave Wilcox, noting that \$10,000 raises have become more common for employees with starting salaries of \$50,000 to \$60,000. Younger workers come to the negotiating table well-armed, he said, with spreadsheets and reports detailing how much money they should make and what competitors pay.

Higher salaries for new workers are also driving broader pay adjustments. Matt Haney, chief executive of Universal Network Solutions Inc., an information technology consultancy in Minneapolis, boosted pay by 12 percent to 17 percent over the past two years after experienced workers realized that they earned less than new hires.

"We had unknowingly fallen behind and had to make up for that," he said.

Some entrepreneurs concede they will never be able to match the pay and benefits offered by bigger companies. Scott Karman, owner of Silver Fox Productions Inc., a Seattle graphic design firm, lost three designers in the past year to corporations promising 50 percent to 100 percent more in their pay packages.

Even though it wasn't hard to fill the open positions, Mr. Karman said he would like to boost retention. He rolled out a bonus plan that can be scaled up and down with business conditions and has added perks, such as occasionally bringing in lunch or a masseuse to the office.

"I don't want my talent to go to competitors," he said.