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AN OHIO FACTORY'S TEST: WILL HIGHER WAGES HELP MORE THAN THEY HURT?

A rubber parts factory was struggling with the labor shortage. Then it got a chance to raise workers' pay.

By Ruth Simon
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CLEVELAND – Charlie Braun long wondered whether paying higher wages would ease staffing shortages at his rubber parts factory, or simply push it into financial trouble. The Covid-19 pandemic provided a rare opportunity to experiment.

With an $879,000 forgivable loan from the federal Paycheck Protection Program as a cushion, Mr. Braun raised wages for some employees three times this year. Starting pay for machine operators, the toughest position to fill, jumped by $4.55 to $18.25 an hour, and to $19 for the night shift.

The early signs appear favorable, if initially bumpy. Custom Rubber Corp.'s head count climbed to 124 in July from 91 at the end of January. Profit margins hovered between five percent and six percent in recent months, roughly double the three percent the company had come to expect in a good year.

Labor costs, including taxes and benefits, now account for about 17 percent of sales, up from 12 percent eight years ago. But the extra labor has helped CRC to fill more orders, and sales rose nearly 50 percent in the first seven months of 2021 versus a year earlier. That allowed better use of equipment and other fixed assets – to a degree that surprised Mr. Braun.

The higher margins are good for him, and employees also benefit through the company's profit-sharing plan. Eligible employees received $355 in the second quarter of this year, the most the company has paid since 2012.

Mr. Braun, CRC's president for more than a decade, said the pay raise isn't a panacea. It can lead to wage compression across the company – when pay for new hires and entry-level positions approaches that of longtime staff – and hard feelings among employees who labored for years at a lower rate. High turnover remains a drag: In July, CRC hired 21 people and lost 13. Because of the time it takes for workers to get good at their jobs, it could take another year to determine whether higher pay reduces waste and boosts output. A drop in sales could be particularly painful given the higher labor costs, he said.

Whatever the outcome, Mr. Braun knows there's no going back. It's difficult to reverse higher wages for existing employees once they're put in place, he said, and he was prepared for the increases to come out of his pocket. His company was fortunate to have the loan: Small businesses generally have less of a financial cushion than larger ones to absorb wage increases. Strong market demand also helped.

The company won't attract a reliable workforce "if the culture stinks and the work is unsafe," Mr. Braun said. To reduce turnover, CRC is revamping recruiting and training, and looking to automation and other engineering changes to make parts of the job easier. But he called higher wages the price of admission. Without them, he said, “we couldn’t even get viable candidates.”

He blames himself, and the manufacturing industry, for not raising wages sooner and helping fuel the current labor shortage.

“I milked the recession for all it was worth in terms of suppressing wages and not increasing wages,” he said. “In hindsight, I probably leaned on that one or two years longer than I should have.”

Businesses across the country are struggling to find employees as the economy picks up, with some companies dangling incentives of $1,000 or more to lure new workers. Mr. Braun’s gamble will help answer the crucial question: Can they deliver raises without hurting the business?

Labor shortages can be particularly painful for small firms, which tend to be thinly staffed. Forty percent of small US firms report a “significant” or “moderate” staffing shortage, according to a survey released in July by the National Federation of Independent Businesses.

Unlike restaurants and retailers, most manufacturers remained open through the pandemic. Their labor woes intensified as health fears, transportation problems and child-care issues made in-person jobs less attractive, while enhanced government benefits eased the pain of unemployment and gave people more time to look for alternatives, said Julia Pollak, an economist with ZipRecruiter.

Manufacturers reported 814,000 job openings in May, according to the Bureau of Labor Statistics, up from 479,000 in December and 402,000 in February 2020. The number of manufacturing employees who quit their jobs each month has also climbed since the start of the pandemic.

In northeastern Ohio, the competition includes Amazon.com Inc., which since September 2018 has opened two fulfillment centers within a 30-minute drive of Mr. Braun’s factory. Amazon currently pays new fulfillment center employees in the Cleveland area up to $18.50 an hour, plus a $1,000 signing bonus, and employs roughly 8,000 full- and part-time workers in fulfillment centers and other operations there, a company spokeswoman said. “Amazon has taken thousands of people who would be in our ecosystem” and changed the base rate manufacturers must now offer to attract new hires, said Ethan Karp, chief executive of Magnet, a nonprofit providing technical assistance to CRC and other area manufacturers. At least one-third of the local manufacturers he speaks with are weighing pay increases, Mr. Karp estimated.

Danteii Shepherd, 31, joined CRC in March, making $18.50 an hour. He had been earning $13 an hour as a janitor, a job he got after an on-the-job injury made it dangerous to continue his previous work as a truck driver. “I see a lot of opportunity here,” he said. CRC operates out of a 30,000-square-foot red brick building dating back to the early 1900s and a newer annex of the same size. Mr. Braun’s parents bought the business from a plumbing supply company in 1980.

He spent a few summers operating rubber molding machines at CRC and earned a bachelor’s degree in art history from Harvard University and an M.B.A. from Case Western

Reserve University. He worked at a Boston-based bank, a housewares company and Ernst & Young before returning to the family business in 1998.

CRC's 50-plus compression and injection molding machines use heat and pressure to transform sheets and strips of rubber into pet toys, toy truck tires, seals for natural gas valves, suction cups and other products. Five shifts of workers keep the factory running 24 hours a day, seven days a week.

Mr. Braun, 50 years old, sends handwritten notes to employees' homes to mark work anniversaries. He takes a handful of workers from each shift to breakfast or lunch at a nearby diner roughly eight times a year – except when Covid-19 intervened. CRC offers health benefits, a retirement savings plan and tuition reimbursement for employees. Molding machines run at 370 degrees Fahrenheit. Each station has its own fan, but temperatures inside the factory can top 100 degrees. Pulling rubber parts from molds requires hand strength. Minor burns and cuts are occupational hazards, even with protection. Most employees put in 12-hour shifts for two or three days, then get two or three days off.

"A lot of people don't like to be burned or don't like the heat," said Patrick Holivay, 43, who joined CRC as a machine operator in 2018 and now earns $26 an hour as a shift supervisor. He recently convinced his brother-in-law to leave his job at another manufacturer for a position on a CRC shift.

The company long paid above the minimum wage – currently $8.80 in Ohio for most employers. Even with the recent raises, base starting pay falls shy of the $26.44 needed to support a family of three in Cuyahoga County, according to the Massachusetts Institute of Technology's Living Wage Calculator, though overtime is plentiful.

Mr. Braun believes he can boost starting pay to $20 an hour by making production processes more efficient and employing higher-caliber workers, but isn't sure when that will happen. He believes he has been hiring more workers recently that he can promote.

Mr. Braun has been thinking about worker pay at least as far back as 2016, said Susan Helper, a friend and Case Western Reserve economics professor. Ms. Helper first visited CRC in the 1990s, advising Mr. Braun's father on supply-chain issues. Last year, Ms. Helper sent Mr. Braun a paper she co-wrote on how high wages and high profits can coexist.

"In Cleveland and, to some extent, the nation, we have settled on this low-wage model," said Ms. Helper in March, shortly before she joined the Biden administration's Council of Economic Advisers. That mind-set ignores less obvious costs, such as the expense of hiring and training new workers and lost revenue from missed orders, she added.

CRC's business boomed last summer, thanks to increased demand for pet toys and a new customer that needed rubber sleeves for vent pipes. Because of worker shortages, Mr. Braun figured he was losing out on at least $300,000 a month in sales.

Ms. Helper's approach was tempting but risky. "My margins aren't fat enough to roll the dice and increase wages," Mr. Braun said. "If it doesn't work, I'll be bankrupt."

CRC typically dealt with labor shortfalls by boosting overtime and turning to temporary agencies for recruits. But many temporary workers last just days or weeks. The company has been short anywhere from 14 to 31 workers in recent months.

“We ran out of a pool to even bring in and interview,” said Tim Zeigler, vice president of manufacturing.

Five years ago, CRC raised starting pay for machine operators without giving existing employees a boost. “The blowback was enough that I didn’t want to do it again,” Mr. Braun said. After workers complained, he added a service bonus that starts on workers’ fifth anniversary.

The forgivable PPP loan provided a financial cushion that gave Mr. Braun confidence to raise wages for all hourly employees by $1.50 at the start of the year and by another 50 cents at the end of June, with production workers receiving another $2.55 in late January.

Inflationary pressures made it easier for CRC to raise prices twice, in January and May, tucking some of the higher wage costs into increases driven by rising raw materials prices. With supply chains strained around the world, Mr. Braun has more orders than he can fill, and customers don’t have many other options.

In early March, six weeks into the experiment. Mr. Braun seemed optimistic. Less than two weeks later, four employees didn’t arrive for their weekend shift. March ended with 20 hires and 20 departures.

“This hasn’t been the silver bullet,” Mr. Braun said soon after.

He wondered whether $1,200 government relief checks hurt retention. Another problem: the company’s human-resources assistant quit unexpectedly, leaving human-resources manager Ryan Brumfield less time to interview job candidates. Most employees simply stop showing up and don’t answer their phones, making exit interviews impossible.

Mr. Brumfield, who joined CRC in January, said he had hired some applicants he felt “wishy-washy about” to meet Mr. Braun’s staffing goals, but that March knocked him down a peg. He now looks for recruits who have held a job for at least two or three years, a sign they are more likely to stick around. In February, he stopped working with temporary agencies because turnover was too high.

“It’s a good thing he’s trying to bring people in,” said Anita McFowler, 50 years old, a machine operator for nine years who now earns $20.08 an hour. Ms. McFowler said she is happy, “as long as I get my paycheck.”

Mr. Braun bumped up the pay for all production workers so new hires wouldn’t earn more than supervisors, but the gap between new and experienced workers has narrowed.

“There’s now a $1 or $2 difference from my pay and the pay of someone they hired a year or so ago. It should be more,” said John Ward, 49, a machine operator who has worked for CRC for 16 years.

“Am I pleased with it? Yes,” Mr. Ward said of getting a raise. “Would I be happier if it was five years ago when it went up?” he added. “I wish it was years ago.”

Mr. Braun said he understands the frustration. “Looking back, I made some mistakes,” he said. “All I can do is get everybody paid fairly now on wages that you can live on.”

CRC is currently looking for 14 machine operators. It will need eight more when two new injection molding machines arrive in September, a roughly $700,000 investment. The company has ordered one additional machine for delivery in January that will need operators and is likely to order at least two more.

Mr. Braun figures he doesn't need to react each time competitors boost pay because most people won't leave their job for 50 cents more. But he would like to maintain a $3-an-hour advantage over other nearby manufacturers for as long as possible.

"I've got my fingers crossed that the company will continue to make money," he said. Employees will continue to make money, he added, "because I can't roll it back."