Do The **Math!**

The "Creep" Effect

By Jay Goltz

Most people would agree that having a good workforce is a critical part of both growing your business and being profitable. With that being said, there is a "creep" problem. Not the creep that you hired that you need to get rid of. What I'm talking about is salary creep.

Here's a typical scenario: If you are doing a good job both hiring and managing, your employees will hang around for a while. Let's assume that you hire a person whose starting rate is $8 an hour. If that person does a good job, at the end of the first year the learning curve has flattened out. The employee has hit stride, and you want to give that person a raise—an increase to $9 an hour. This is not really costing you more because the employee's output is higher. Fair enough.

By the end of the second year, however, the output hasn't really increased even though that person is continuing to do a good job. You want to give another raise that the employee will be happy with. In the worst case scenario, he/she is expecting (or at least hoping for) another $1 an hour raise. Hopefully, you have explained that the first year's raise was a bigger one because they were still learning the job and increasing their production but now it's basically a cost of living increase. Even so, what kind of raise are you going to give?

The annual cost of living allowance (COLA), the inflation rate used by the U.S. government, has been running at 2.5 to 3 percent for the last several years. Using 3 percent as your guide, this employee would be getting a 27¢ raise. You're a little squeamish about that because it doesn't sound very good.

What are you going to do? Many people would settle on giving a 50¢ raise. You do want to keep the person happy and he/she understands that the raise is lower than the first year.

So let's do the math and see where you are after 10 years.

Impact of Salary Creep

	50¢/Hour Raise	3% Raise
Starting Salary	$8/hour	$8/hour
Year One Increase	$9/hour	$9/hour
Addition Year Increase	50¢	3%
After 10 Years	$13.50/hour	$11.75/hour
Annual Salary	$27,540	$23,970
Annual Difference	$3,570 or 15%	

Depending on what your labor runs as a percentage of sales, this difference could represent half your profit if you don't raise your prices to absorb it. If you did that, in a tight-margin business like production you could very well have lost some jobs.

Keep in mind, this is a production-type employee who has a limited skill set and is pretty much doing the same job as the person who has been there one year. To complicate things further, that other employee is making $11.75 an hour while the employee in question is making $13.50.

In a perfect world (you could reason), that wouldn't matter because employees aren't supposed to talk about salary. We all know the world ain't perfect. Even if they don't talk to each other, I've seen numerous situations where pay stubs have been left laying around or been found in the garbage.

Personally, if one employee did find out what another one was making, I want to run the kind of company in which any differences are justified. What about the fact that someone has been there a long time? Shouldn't they be rewarded for sticking around? Yes, absolutely. I would just rather put it into a holiday bonus based on years of service.

Those of you who don't hold onto people are not really exposed to this problem. It's only a problem if you do keep your employees around for years. The solution is to try to keep them around for years and have a clearly defined raise review process so you don't end up with this problem.

Cost control is a very critical piece of making money.