Finding and retaining the right employees to help you succeed

Ask any franchise operator about his or her greatest challenge, and you probably won’t hear about purchasing or marketing issues. These days, the biggest concern in nearly every marketplace involves finding the right employees and keeping them on the payroll. Even in areas where unemployment is high, it can be tough to hire and keep motivated employees. If you do business in an area where the economy is strong, you’re probably paying more per hour than ever before, and still losing people to your competitors. Plus, there’s demand for significant increases to the minimum wage, and most franchise operators depend heavily on employees at the lower end of the pay scale.

In this document, we’ll explore some of the workforce-related challenges facing today’s franchise operators, and offer suggestions that have worked for some companies. Of course, every business is different, so please consider this general commentary and not specific recommendations for your operation.

The minimum wage debate

One of today’s most hotly debated issues centers upon the federal minimum wage. There’s a strong outcry to pay workers what they often refer to as a “living” wage; one that is substantially higher than the current federal mandate. The effort gained media attention in the months leading up to the 2016 presidential election, and governments in California, New York State and the city of Seattle have approved $15/hour minimums (with different implementation schedules). Other local and state governments have been considering similar measures.

What exactly is a living wage? That’s open to debate, but it advocates for wage increases and points out that it’s difficult to maintain a basic standard of living while working full-time for the federal minimum wage. A study by the Center for Labor Research and Education at the University of California-Berkeley found that 52 percent of fast-food workers needed extra money from government assistance programs -- amounting to as much as $3.7 billion in California and $3.3 billion in New York State. Overall, the study estimated that “low-wage” workers cost American taxpayers nearly $153 billion in aid each year.

Given that many franchises depend upon minimum-wage employees, the prospect of a significant increase in labor costs is nothing short of terrifying. Frequently lost in the debate is the point that franchise operators would most likely have to increase the prices they charge to recoup the additional wages, which might create a double-whammy for those who are required to pay a percentage of sales to franchisors. Higher prices will inflate sales numbers, so between increased labor costs and heftier fees, franchisees may actually lose ground.

Franchise owners are also at a disadvantage in states that classify their locations as part of the franchisor’s national operations instead of as locally owned businesses. For example, a Subway franchisee in Seattle employs just 17 people at his two locations, which should exempt him from the 500-employee minimum for faster implementation of the city’s higher wage. However, the law lumps him in with other Subway operators nationwide, so he’s treated as a big company.
However, some economists suggest that higher minimum wages may be beneficial to businesses, because it leads to higher-quality, harder-working employees and reduces turnover and the cost of training new employees. If higher wages mean that franchise operators can afford to hire more-talented and more-efficient employees with lower rates of absenteeism, they may need fewer employees overall. It may be that the challenge of paying higher wages will create opportunities for innovative franchisees.

**Other legal issues**

One of the results of the 2016 election may be major changes in federal regulations regarding employees. For example, there have been discussions about rolling back some of the recently adopted rules regarding overtime hours.

Requirements for employers differ across states and municipalities. Some locations require employers to offer paid sick leave for all employees, while others may force employers to make accommodations for employees who claim to have disabling conditions. Recent statements by the National Labor Relations Board blur the lines between franchisor and franchisee, suggesting that the two sides are actually “joint employers,” and raise questions about which regulations might apply to franchise operators. In addition, many municipalities have adopted “ban the box” laws that prevent employers from asking job candidates about their criminal history.

**Our changing population**

As America’s population changes, so does the nation’s workforce. Over the next decade, many members of the Baby Boomer generation will reach retirement age, with perhaps as many as 40 percent of workers leaving the workforce. Another significant change is that minority groups are quickly becoming a majority of the population, and are expected to make up 40 percent of the labor force by 2020.

Much has been said and written about the generation at the other end of the workforce, known as Generation Y or the Millennials. In a CareerBuilder survey, more than 85 percent of employers surveyed claimed that Millennials have a stronger sense of entitlement than previous generations, expecting higher pay, more flexible work schedules, and quicker promotions.

No matter what you personally think of this group of twenty- and thirtysomethings, there are some facts that employers should keep in mind. First, Millennials tend to welcome new challenges and are more likely to change jobs just to do something different. In addition, their affinity for sharing every aspect of their lives on social media extends to their employment experiences. If they found your hiring or onboarding process unpleasant, they’ll let everyone know, which may affect your ability to attract other workers. In fact, 92 percent of the group surveyed had shared details of job searches with their networks.

**Hiring has changed, too**

Adding to the changing expectations of Millennial candidates and a shrinking workforce is the fact that more workers of all ages are either actively seeking new positions or open to new jobs. A recent CareerBuilder study found that 76 percent of full-time employees are ready to make a change. At the same time, 48 percent of employers worry that they can’t find enough workers.
The study’s authors suggest that the reason for the apparent disconnect goes back to those changing expectations. Among the key findings of interest to franchise operators:

- Candidates won’t take the time to complete long or complicated applications. Roughly 20 percent won’t fill out an application that takes more than 20 minutes.
- They expect immediate answers. About 66 percent said that if they don’t hear back from you within two weeks, they’ll move on to other opportunities.
- If they can’t find information about your business on the web or in social media, they’re far less likely to apply.
- They expect greater detail in job postings, especially salary and benefit information.
- Millennials in particular expect to be able to apply over mobile devices and may reject employers who don’t offer that channel.
- Job seekers reported checking as many as 16 different sources to find jobs. If your listings are limited to one place, you may be missing candidates.
- Only 31 percent of employers have tested their application process by applying for a job to see what candidates go through.\(^8\)

Beneficiaries of the competition for workers are recent immigrants. Some franchise operators have found that immigrants are eager to establish a foothold in the economy. “Immigrants are often great employees because they come to this country seeking the American dream and they expect to actively participate in the American work ethic,” said one pizza franchise operator who has been open to hiring immigrants.\(^9\)

**Importance of retention**

As hiring becomes more difficult and more costly, and employee loyalty seems to be on the wane, franchise operators would be wise to emphasize efforts to keep top-quality employees happy. That begins when employees start, with a formal onboarding process that makes them feel like welcome members of the team. Investing in training builds skills and satisfaction, too.

Other steps that can boost retention include having clear expectations for employees and sharing those expectations in writing, recognizing them for performance, offering opportunities for career advancement, and offering competitive benefits.\(^10\)

One St. Louis-area roast beef chain has managed to hold onto general managers for an average of 17 years and assistant managers for 12. In an industry that experiences typical turnover rates of 60 percent or better, the chain’s franchises rarely lose employees. Their secret? An overriding focus on keeping employees happy. “Employee satisfaction drives customer satisfaction. Customer satisfaction drives customer retention. Happy employees equals happy customers. Never in the history of business has a disgruntled employee delivered delightful service,” says productivity expert John Boyens about the chain’s approach. The chain puts an emphasis on flexibility in scheduling and ensures that managers work minimal overtime. It has a team of substitute managers who can step in when a restaurant manager wants to take a vacation.\(^11\)

The most effective retention programs begin before employees join your franchise. How you recruit and hire will determine the quality of your employees. “The worst person to hire is not a bad employee; it’s an OK employee,” says retention expert Mel Kleiman. “If you get a bad
employee, you figure out pretty quickly they’re bad and get rid of them. If you hire someone who is OK, then at least they’re OK, and you have too many things to do besides finding someone better, so you just leave them in the job. Mediocrity is a slow death.”

Kleiman recommends that franchisees always be on the lookout for great managers and employees they can recruit from other businesses, and alert to competitors that are laying off good people who they can approach, rather than waiting for potential employees to come to them.¹²

**Financing staffing costs**

If you’re thinking about growing your business and adding staff, you may be seeking financing. There are several financing sources available to franchise owners. The most well-known is traditional banks, but they aren’t always comfortable with franchises. Most banks are geared to making small business loans to businesses like retailers, manufacturers, and construction companies that have tangible assets like inventory, equipment, and real estate, and that control most of their own operations. Some banks offer loans that are guaranteed by the federal Small Business Administration, but SBA loans take a long time to process, may involve an overwhelming amount of paperwork, and have relatively small lending limits.

Another alternative is specialty lenders that are accustomed to working with franchise owners. They understand how a business like yours operates, so they can approach the underwriting with realistic expectations and an appreciation for inherent risks. In addition, as private companies, they are not restricted by federal limits.

**About First Franchise Capital Corporation**

Looking for a lender that understands and focuses exclusively on serving franchise operators? First Franchise Capital Corporation (FFCC) provides cash flow and asset-based loans to franchise owners throughout the United States. We believe strong relationships with our clients lead to personalized service and customized finance solutions to finance equipment, real estate, and business acquisitions. Our team of specialists deliver a personalized client approach to ensure your satisfaction and success. FFCC can customize a loan for your needs and situation, from $200,000 to $20 million. The goal is to help you finance growth with minimal out-of-pocket cost by leveraging the power of your assets and cash flow. Learn more by contacting us at 844-406-0347 or www.firstfranchisecapital.com.

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Whitepaper: Overcoming the Challenges of Today's Franchise Workforce


62008 CareerBuilder.com survey, quoted on halogensoftware.com

72012 Candidate Behavior Study, CareerBuilder.com

82016 Candidate Behavior study, CareerBuilder.com


10“Hiring the right franchise employees,” interimfranchising.com blog post, December 2015.

11“The Secrets Behind a Satisfied Franchise Staff,” Entrepreneur Magazine, February 13

12Ibid.