

Sound and Savvy Operational Solutions to Offsetting the Increased Minimum Hotel Wage

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One would be hard pressed to sift through the news without seeing some mention of minimum wage increases. In virtually every part of the country, cities are taking measures to drastically raise the minimum wage, forcing businesses to grapple with how these costs are going to impact their bottom lines. The hospitality industry, particularly in California, has been a major target of these increases. Statewide, California's minimum wage increased to \$10 on January 1, 2016. However, championed by union organizers, last year the Los Angeles City Council's Economic Development Committee gave final approval to increase the minimum wage to \$15.37 per hour for hotels with 300 or more rooms by July 1st, 2015, and for hotels with 125 or more rooms by July 1st, 2016. In Long Beach, California, employees at hotels with 100 or more rooms are entitled to \$13 per hour. Reacting to the wage hikes, some service businesses in Long Beach and other cities have stated they will be adding a 15 percent service charge to each guest's bill to compensate for the significant increase in payroll cost. Hotel and restaurant workers who rely on tips have cited other cities, where these kinds of added costs have reduced gratuities.

In order to mitigate the impact of the increased wage, hotels should consider evaluating their operations to find ways to offset these costs. The following are some ways that establishments can take a sound and savvy approach to operational issues in order to keep their bottom lines intact:

Seasonal Work

Because certain times of year will be busier than others, hiring seasonal workers to meet demand makes good business sense. Ramping up on staff during busy times of the year, such as the holidays and over the summer when hotels are often at capacity, will make it easier to scale back on employees later when occupancy rates plummet.

Part-Time Employees

Studies have suggested that the minimum wage hike could actually reduce part-time employment, as hotel management will likely seek to establish a core group of dedicated full-time employees to maximize value for wages paid. This could be positive for hotels, as their employee turnover rate is likely to decrease.

Shift Differentials

Hotel employers are not required to pay shift differentials, but historically, providing additional compensation to those employees who work unpopular hours, particularly night shifts, has been shown to boost morale. However, in light of the minimum wage hike, employers may want to consider eliminating this practice. Further, employers should be mindful that employees who work permanent evening or night shifts that are paid differentials need to be paid vacation, sick and personal leave at an average of the employee's regular rate and the differential rate.

Outsourcing

The practice of outsourcing off-site has become prevalent in the hotel industry. Laundry services, housekeeping, equipment maintenance, spa, valet, security, and information technology, are all commonly outsourced functions. Hotels can reduce costs and liability, and even provide better service, by outsourcing. However, hotel employers should be mindful of potential joint employer liability, especially in light of the National Labor Relations Board's recent *Browning-Ferris Industries of California (BFI)* decision, that dramatically eased the criteria for a company to be considered a joint employer. Historically, the joint employer test focused on governance, wage and supervision decisions, and control. Under the new standard, a finding of joint employment is much broader, and only requires that a business exercise "indirect" (or potential) control over workers. Hence, under the new standard, a franchisor hotel may not only be held liable for its own labor violations, but for those of a franchisee entity as well. Analyzing joint employer criteria is paramount when making the decision to outsource.

Automation

Automation helps reduce hotel costs while improving overall efficiency. Automated reservation systems, for example, provide hotels with cost effective processes for taking and confirming reservations while decreasing the margin of error. Other areas where automation benefits hotels include invoicing, distribution and Online Travel Agent (OTA) management. Further, these days automation software is extremely economical, making automation—even for the smallest of hotels—a no brainer.

Amenities

Hotels should anticipate the needs of their guests, and adjust their amenities accordingly. For example, studies have shown hotel revenue from food sales has been steadily declining over the last decade. Hence, many hoteliers have opted to cut back on food and beverage offerings, including room service. Instead, many select-service hotels now offer grab and go breakfasts— such as a bagel, banana, and cup of coffee—particularly if the property caters to business travelers. Select-service hotels are the largest growing market of hotels today. Additionally, assessing whether business centers, doormen and bellhops truly add value can also help hotels to pare down to essentials.

Layoffs

Hoteliers considering layoffs need to examine every angle of their operations. The Federal WARN Act requires employers with 100 or more employees to provide at least 60 days' notice when a "plant is closing" (i.e., business shutdown) or in times of "mass layoffs" during a 30-day period (and impacting 50-499 employees who constitute 33% of the workforce). Layoffs of over 500 employees are covered, regardless of what percentage will be impacted. Most states have mini-WARN acts, state laws that create WARN-like obligations. California's Warn Act has a broad scope, kicking in when a business employs 75 or more full-time or part-time workers within a year. Hawaii's mini-WARN applies to layoffs of as few as 50 employees, and Illinois' applies to the layoffs of only 25 workers. Further, in the percentage of the workforce impacted is irrelevant. It is vital for employers to accurately track all layoffs, to ensure that WARN requirements are met. Additionally, hotel owners should be cognizant of

the potential for costly discrimination claims that frequently ensue from layoffs, often in the form of class action lawsuits.

Protecting Your Bottom Line

Restructuring your hotel with these things in mind will ultimately help you to protect your bottom line. Further, engaging an attorney to assist with and advise on your business plan is a recommended best practice. Implementing a solid framework to deal with these minimum wage issues will ultimately help you to offset increased costs, stay in compliance with the law, and mitigate the risk of any future lawsuits.