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Pennsylvania Senate Labor and Industry Committee Hearing on Raising the Minimum Wage

**Written Testimony of Robert Fry, Co-Owner and CEO, Bar Marco and The Livermore,
Pittsburgh, PA**

Position: SUPPORT

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Thank you, Chairman Baker, Senator Tartaglione, and members of the Senate Labor & Industry Committee for the opportunity to testify in favor of raising the minimum wage and the tipped minimum wage, and in favor of COLAs, or tying future increases to the rising cost of living.

My name is Bobby Fry and I am the co-owner and CEO of two award-winning restaurants and cocktail bars in Pittsburgh, Bar Marco and The Livermore, which have been open for four and two years respectively. Bar Marco was named a Top 50 Best New Restaurant by Bon Appetit Magazine in 2013 and our chef was a James Beard Semi-Finalist for Rising Star Chef in 2015. We currently employ 35 people across the two restaurants. Additionally, my co-owners and I started a non-profit with celebrity chef Jamie Oliver, The Food Revolution Pittsburgh Cooking Club, and for the last six semesters we've taught the students of Pittsburgh Public Schools how to cook every Tuesday. Before opening our restaurants, I worked as an institutional equity trader and strategist.

I'd like to focus today on sharing our experience with employee compensation at Bar Marco. After four years in operation, we recently decided to no longer accept gratuity. Tipped employees, under current laws, often do not receive a paycheck at all because the taxes on their tips reduce their \$2.83 per hour wages to literal pennies. Their entire take-home pay comes from restaurant patrons. Instead of accepting tips, we now pay all our employees a base salary of \$35,000. We offer health benefits, paid leave, and bonuses as a percentage of Bar Marco's net profits. And we are instituting these changes with minimal increase to menu prices.

How is this possible given conventional restaurant thinking to the contrary? Because there are significant cost offsets that come with better paid staff including lower turnover, reduced waste and increased efficiency, and better employee performance and loyalty. All of this saves my business money in the short run as well as the long run.

Take turnover for example. The cost of turnover for most restaurants is very high. Some restaurants experience turnover as high as 100% or more a year as low-wage employees seek higher-paying jobs. Replacing an employee typically costs an owner one-fifth of that person's annual salary. Higher-paid employees stick around longer and are more focused and productive on the job because they're better able to meet their needs outside of work.

Increased efficiency resulting from low turnover provides even bigger cost savings. Most small restaurants operate with 25% of their gross revenues covering cost of goods sold, 25% covering the cost



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of labor, 40% going to overhead and fixed costs, and are left with 10% profits if they are doing well. Bar Marco is currently running at 27% fixed and overhead costs – over 10% less than most restaurants – because of the mindfulness and experience of our team.

Further, employees who've been with my business longer can perform at a higher level and save me significant money in reduced food costs. I can now add menu items with higher returns that require more training and experience to accomplish. I can also reduce food waste through fewer errors and staff with greater skills.

Finally, turnover takes my time and attention away from helping my business thrive in other ways. A dependable, well-trained staff with low turnover gives me the ability to study our budgets, interact with customers, improve our business model, and innovate with both our operations and our product. 70% of restaurants fail in their first three years and 90% fail in their first five. If a restaurant makes it three years, it means consumers at least enjoy the food, drink and service. After that, if the structure of the business does not continue to improve and meet customer expectations, the competitiveness of the organization quickly erodes. Businesses must innovate constantly to meet the demands of their consumers and the marketplace, and it is impossible to do that in a low-wage environment, which lowers employee morale and dependability while exponentially increasing the time spent on hiring, training and HR.

In response to our decision to stop accepting gratuity, we received a national and international press storm, and yet the trend toward doing away with gratuity is growing. For us, this employee compensation strategy was chosen to proactively solve three key problems that many restaurants face between years three and five.

These problems are: (1) Employee fatigue and burnout from the incentive for servers to work straight through from Thursday to Sunday for the best tips, (2) Uncertainty for both employer and employee surrounding expected pay each week, and (3) The often overlooked fact that as revenues rise and a business gets increasingly busy, less time is spent on planning, quality control and innovation, leading to greater inefficiencies and waste, and ultimately reducing profitability. All of these things erode staff culture, employee efficiency and the bottom line if left unaddressed.

Like other business owners in Pennsylvania Business for a Fair Minimum Wage, I know that keeping the minimum wage low actually hurts the economy. It weakens consumer demand and slows down progress by letting businesses artificially pad their profits by underpaying employees so much they can't even afford the basics. The great risk to not raising the minimum wage is that we allow less competitive businesses to skate by on the wings of those of us who are leading the innovative charge. Many businesses will spend time and money on public relations to state their conventional wisdom that a higher minimum wage will create fewer jobs. To them I say get back to work.

What a higher minimum wage will do is create more spending. And increased consumer spending creates jobs. Higher wages will allow those who have three jobs just to make ends meet to have one better job that they care about and that empowers them and pays them for their full potential.



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Greater inventory controls, greater customer service, greater speed at the checkout line, higher quality ingredients and the great commonwealth of Pennsylvania retaining and attracting the best workers in the country are the benefits of a higher minimum wage. If that means that some managers have to reinvent their processes and business models, I'm proof that it's possible and less difficult than many would have you believe. In fact, it takes more energy to fight growth than it does to create it.

I strongly urge the committee to vote yes to a phased increase in the Pennsylvania minimum wage to at least \$10.10 an hour, indexing future wage increases to the rising cost of living, and increasing the tipped minimum wage to at least 70% of the regular minimum wage.

Thank you,

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