



February 9, 2021

Irvine City Councilmembers  
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 Irvine, CA 92606

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**SUBJECT: PROPOSAL TO MANDATE INCREASED GROCERY WORKER PAY**

Dear Councilmembers:

The California Chamber of Commerce and undersigned organizations respectfully oppose the proposal to mandate an across-the-board increase of grocery worker and drugstore worker hourly pay. Such a steep increase in payroll costs will have a detrimental impact on the grocery industry, which has been and presently is operating on thin profit margins with many stores operating at a loss, and other businesses that have increased costs due to COVID-19.

**Grocery Stores Operate on Razor-Thin Profit Margins**

At least sixteen cities and/or counties are presently considering \$3.00, \$4.00, or \$5.00 an hour increases for all grocery workers who work for companies of a certain size. The average pay for grocery workers in California is currently \$18.00 per hour, which is \$4.00 per hour above the state minimum wage.<sup>1</sup> Labor costs are already one

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<sup>1</sup> Capitol Matrix Consulting, Consumer and Community Impacts of Hazard Pay Mandates (2021), available at: <https://www.extrapayfacts.com/economic-impact-study-consumer-and-community-impacts-of-hazard-pay-mandates/>

of the largest expenses for grocers, second only to the cost of goods. On average, about 16% of sales are used to pay for labor costs. An across-the-board increase as proposed by these ordinances would increase labor costs approximately 28% for grocery stores and increase the amount of sales used to pay for labor costs to about 19-20.5% of sales. This is a 3-4.5% increase in sales that will need to be used to pay for labor.

These proposals are largely based on a false premise about the profitability of the grocery industry. Temporary increased sales during COVID-19 have not led to a windfall of extra money for these companies. Average profit margins for the grocery industry were approximately 1.4% in 2019, far below the average profit margins of other industries. The industry saw a slight increase in those margins to 2.2% in early to mid-2020 and it was around that time that some grocery stores did voluntarily increase workers' pay around \$2.00 per hour and/or provided one-time bonuses. That prior voluntary increase in pay is now being cited as one of the reasons that stores can afford these increases again, but profit margins have since trended down to pre-COVID numbers and these new ordinances mandate hourly pay increases of double the size of the voluntary increases. This trend of declining profit margins is true even for California's largest grocery store chains, whose profit margins peaked at 3.6% of sales in early 2020 and fell to 1.9% by December. A store with a profit margin of less than 2% of its sales cannot absorb a cost that is equivalent to 3-4.5% of its sales.

Profits are also not consistent between stores. It is estimated that up to one third of all stores incur net losses and are propped up by other stores that do profit. With such a sharp increase in labor costs, this will decrease those other stores' ability to subsidize stores that incur losses. The grocery industry is not in a place to absorb a 28% increase in labor costs.

### **Businesses Face Increased Costs Due to COVID-19**

It is crucial to view this issue in light of all of the costs that businesses have faced throughout COVID and are still facing. The grocery and drug store industries have incurred significant costs to keep their employees and customers safe and to comply with constantly changing guidance from local public health departments and the California Occupational Safety and Health Administration (CalOSHA). Those costs include:

- Providing employees with personal protective equipment
- Increased sanitation and cleaning protocols
- Installation of protective equipment, including plastic barriers, and social distancing markers
- Supplemental paid leave under the Families First Coronavirus Act, Executive Order No. 51-20, and Labor Code sections 248 and 248.1
- Exclusion pay under the CalOSHA Emergency Temporary Standard (ETS)
- Hiring and training workers or paying overtime wages to existing workers who fill in for those out on paid leave or who are excluded under the ETS
- Biweekly or weekly testing costs under the ETS
- Reduced sales due to limiting numbers of customers

Grocery stores' efforts to protect employees are proving effective. Less than 1% of COVID-19 workers' compensation claims in California have been filed by grocery store employees.<sup>2</sup>

While mandating such significant pay increases to all grocery workers may directly benefit those workers, it will have negative impacts to the industry as a whole and reduce the ability for the stores to hire back more employees, or maintain existing levels of other wages or benefits for employees in the industry. It is likely to even result in higher food costs of approximately \$400.00 annually per household of four, which many Californians can simply not afford.

### **The Long Beach Ordinance Has Already Caused Multiple Grocery Store Closures**

As a result of the Long Beach ordinance that took effect several weeks ago mandating a \$4.00 per hour increase for grocery workers, The Kroger Company announced that it was forced to close two of its struggling stores in the city. The company estimates that it has spent approximately \$1.3 billion on additional pay to associates and

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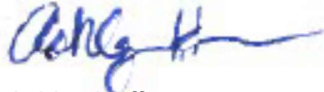
<sup>2</sup> [California Workers' Compensation Institute - COVID-19 & Non-COVID Interactive App \(cwci.org\)](https://www.cwci.org/)

COVID-19 related safety measures. That \$1.3 billion cost does not include paid leave offered to employees due to the pandemic.

We implore you to reconsider this proposal due to the detrimental impacts that this proposal would have on businesses, the overall workforce, and the cost of goods.

We appreciate your consideration of our concerns.

Sincerely,



Ashley Hoffman  
Policy Advocate  
California Chamber of Commerce

Brea Chamber of Commerce  
Carlsbad Chamber of Commerce  
Corona Chamber of Commerce  
El Dorado County Chamber of Commerce  
El Dorado Hills Chamber of Commerce  
Elk Grove Chamber of Commerce  
Folsom Chamber of Commerce  
Greater Conejo Valley Chamber of Commerce  
Greater High Desert Chamber of Commerce  
Greater Irvine Chamber of Commerce  
Greater Riverside Chambers of Commerce  
Hollywood Chamber of Commerce  
Long Beach Area Chamber of Commerce  
Oceanside Chamber of Commerce  
Pleasanton Chamber of Commerce  
Rancho Cordova Chamber of Commerce  
Roseville Area Chamber of Commerce  
San Gabriel Valley Economic Partnership  
Southwest California Legislative Council  
Torrance Area Chamber of Commerce  
United Chamber Advocacy Network  
Yuba Sutter Chamber of Commerce

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