

Case Study 2

For many businesses in today's belt-tightening economy, decisions on pay need to be strategic to ensure that employees are treated fairly and to ensure that businesses can remain viable. This requires knowing what your competitors pay their employees and knowing your own salary budget. But knowing what your competitors are paying can be both valuable and painful.

As CEO of Costa Vida, a fast growing chain of fresh Mexican restaurants, Nathan Gardner knew he was competing against some restaurant chains with competitive compensation systems. Costa Vida is a fresh Mexican grill featuring Baja-inspired foods that are made from scratch daily. Following a trip to Cabo San Lucas on the Baja Coast in Mexico, Costa Vida founders JD and Sarah Gardner were inspired with a vision. Bring the freshly made local cuisine with the vibrant lifestyle to the United States. They started their first restaurant in 2001 and after just 10 years Costa Vida has more than 50 franchises in Arizona, California, Colorado, Idaho, New Mexico, Texas, Washington and Utah. One of the main challenges Costa Vida faces is the fierce competition for customers as well as employees. "You'd be surprised how much of a difference having good employees in all areas of the business makes," commented the CEO.

"For the fast-casual food industry," remarked Nathan, "you are dependent upon your people. If you don't treat your people well, they won't treat your customers well. If your customers aren't treated well, you have no business." For months, Nathan agonized over how he could develop a competitive compensation plan that matched the objectives of the organization, but that fell in line with the tight budget of each individually owned franchise unit. He stated, "We, of course, leave the final compensation

An In-N-Out Pay Strategy: Costa Vida's Decision to Boost Pay

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vidually owned franchise unit. He stated, "We, of course, leave the final compensation decision to the franchise owner, but we do all we can to educate and persuade our franchisees to be competitive and fair. In the long run, this is how they can maintain a superior level of customer satisfaction."

Nathan pointed out that a strong benchmark for them is In-N-Out Burger. In-N-Out started in California and is known for its great compensation package. As of 2011, they start out all their new "associates" (aka employees) at a minimum of \$10 an hour. They also offer flexible schedules to accommodate school and other activities, paid vacation, free meals, and a 401k retirement plan. For full-time associates they provide medical, dental, vision, life, and travel insurance coverage. Their reason for paying so high is based on a strategy that lower turnover and more committed workers will lead to better service. "What In-N-Out does for their employees is truly amazing," commented Nathan. "We often see employees moving from one fast-food chain to another, but we rarely see employees coming from In-N-Out."

Nathan had a tough challenge ahead in trying to convince his franchise owners and managers to think more strategically about their pay systems. He needed to help them realize that paying wages and offering other compensation benefits that were better than their competitors may mean lower profit margins up front, but that the returns would be greater in the long run. He also needed to offer evidence to show that this was not just about being fair, but it was about being strategic. The restaurant business is a fast and fierce industry and companies come and go all the time. What was it going to take for Costa Vida to stay for the long haul?

Questions

1. Why is it important for pay to be externally fair?
2. Why is it important for pay to be internally fair?
3. What should Costa Vida's compensation strategy look like? Hint: what are the company objectives and how can employee pay help to achieve those objectives?
4. What should the pay structure look like? What pay mix would you recommend?
5. How should Nathan communicate a new compensation strategy to his franchisee owners and managers?
6. What effect will paying higher wages have on Costa Vida in the short term? What effect will it have in the long term? Explain.

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