

Big Business, Corporate Profits, and the Minimum Wage

Executive summary

America's low-wage economy is marked by two extremes. On the one hand, workers earning at or near the minimum wage are seeing the real value of their paychecks diminish steadily over time, as the cost of living increases while their wages remain stagnant. After nearly half a century of neglect, today's federal minimum wage of \$7.25 per hour is decades out of date. In terms of purchasing power, its value is 30 percent lower today than it was in 1968.¹

On the other hand, many corporations are posting record-breaking profits. *The Wall Street Journal* reported earlier this year that, after sinking from 2007 to 2009, corporate profits had successfully caught up to their pre-recession peak by the beginning of 2010 – and that by the third quarter of 2011, total profits for U.S. corporations reached a new record high of \$1.97 trillion.²

This report examines the connection between these opposing extremes of stagnant wages and soaring corporate profits. While a great deal of attention has been directed at the role of Wall Street and the financial sector in driving economic inequality in the U.S., it is important to recognize that the top low-wage employers also bear responsibility for the growing disparity between corporate profits and worker compensation.

The central finding of this report is that the majority of America's lowest-paid workers are employed by large corporations, not small businesses, and that most of the largest low-wage employers have recovered from the recession and are in a strong financial position.

Specifically:

- The majority (66 percent) of low-wage workers are not employed by small businesses, but rather by large corporations with over 100 employees;
- The 50 largest employers of low-wage workers have largely recovered from the recession and most are in strong financial positions: 92 percent were profitable last year; 78 percent have been profitable for the last three years; 75 percent have higher revenues now than before the recession; 73 percent have higher cash holdings; and 63 percent have higher operating margins (a measure of profitability) – all after adjusting for inflation;
- Top executive compensation averaged \$9.4 million last year at these firms, and they have returned \$174.8 billion to shareholders in dividends or share buybacks over the past five years.

Three years after the official end of the Great Recession, the U.S. continues to face a dual-crisis of stagnant wages and sluggish job growth. Critics argue that a higher minimum wage will discourage companies from hiring, and that most low-wage employers are small businesses that are still struggling in a weak economy. In fact, this report demonstrates that the majority of low-wage workers are employed by large corporations, most of which are enjoying strong profits.

Background

Low-Wage Jobs Are Concentrated in a Small Number of Industries

In 2011, more than one in four private sector jobs (26 percent) were low-wage positions paying less than \$10 per hour.³ These jobs, moreover, were concentrated in industries where low-wage workers make up a substantial share – in some cases more than half – of the entire workforce.

While these heavily low-wage industries account for only one-third of all private sector employment in the U.S., **52.1 percent** of all low-wage workers were employed in these five industries in 2011 (see Table 1).

Because these few industries employ such a significant share of America’s lowest-paid workers, the wages that prevail in these sectors help set standards for the bottom end of the labor market as a whole.

Table 1: Top five low-wage industries

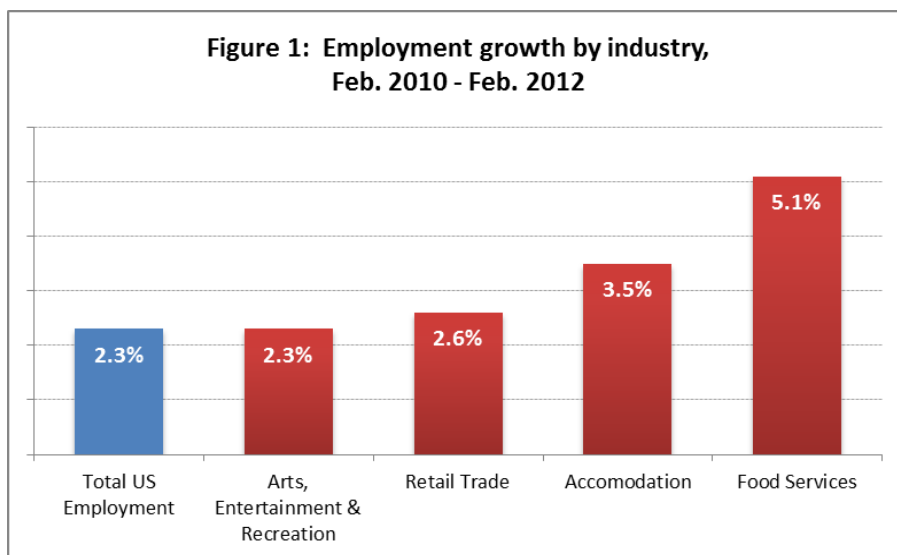
Industry	Percent of industry that is low-wage
Food services	57.4
Accommodation	40.0
Retail trade	36.5
Arts, entertainment & recreation	34.2
Administrative services	33.2

Source: NELP Analysis of Current Population Survey (2009-2011)

Low-Wage Industries Are Growing Faster than Rest of the Economy

For more than thirty years, the U.S. economy has seen growing wage inequality, as middle-wage jobs in manufacturing have moved overseas and new growth has been concentrated in lower- and higher-paying service industries. This trend has been exacerbated by bottom-heavy growth since the recession. In the two years since U.S. employment reached its lowest-point in February 2010, jobs in low-wage industries have grown significantly faster than employment as a whole.

This trend, moreover, is expected to continue: the Bureau of Labor Statistics estimates that seven out of the top ten top growth occupations over the next decade are low-wage ones.⁴

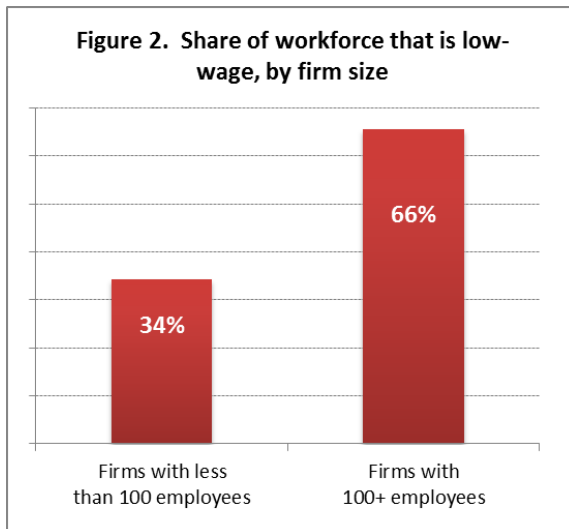


Source: NELP Analysis of Current Employment Survey

Findings

1. Big Businesses Employ the Majority of Low-Wage Workers

In addition to their concentration in a handful of industries, the majority of low-wage workers are employed by large firms rather than small businesses: **Two-thirds** of all low-wage workers (66 percent) are employed by firms with over 100 total employees.



Source: NELP Analysis of Current Population Survey (2009-2011).

Contrary to what critics sometimes suggest, the majority of the impact of any increase in the minimum wage will therefore be felt by large companies and corporations rather than small mom-and-pop establishments.

2. Most Large, Low-Wage Employers Have Already Recovered from the Recession

Opponents of raising the minimum wage argue that an increase will slow down the post-recession recovery, and is more than struggling employers can absorb at this point in the business cycle. To shed light on this claim, we examined the financial position of the nation's largest employers in low-wage industries – the businesses that employ a disproportionate share of the workers that would be affected by a minimum wage increase.

Examining the top 50 low-wage employers using a variety of financial performance measures, we found that **most of the nation's largest low-wage employers are in a strong financial position** and that, by several measures, **the substantial majority have fully recovered from the recession and are in an even stronger position than before**. Note that all comparisons with pre-recession indicators use inflation-adjusted data.

Among the 50 largest low-wage employers, we find:

- 92 percent were **profitable last year**
- 78 percent were **profitable for the past 3 years**
- 75 percent are earning **higher revenue** now than before the recession
- 63 percent are earning **higher profits** now than before the recession
- 63 percent have a **higher operating margin** (a measure of profitability) now than before the recession
- 73 percent have **higher cash holdings** now than before the recession

The names of the 50 largest low-wage employers and data on their financial performance are presented in Appendix I. The sources and methodology used in conducting this analysis are explained in Appendix II.

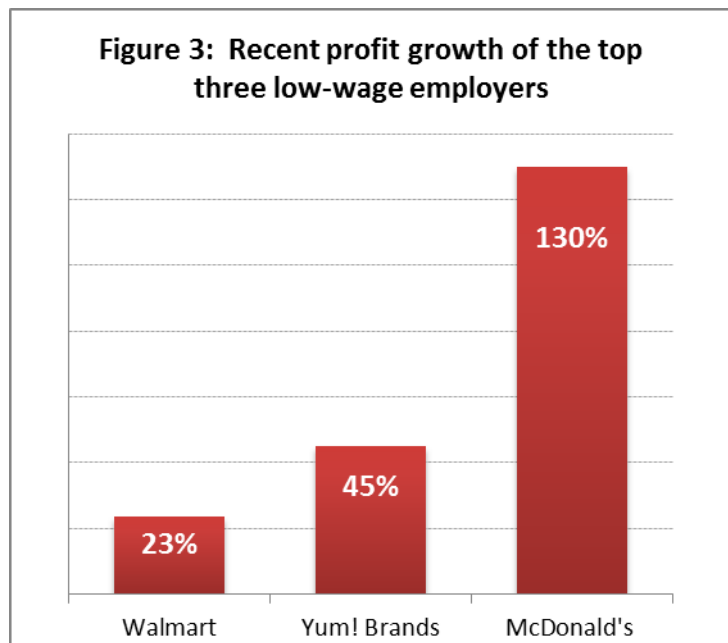
As most of the largest low-wage employers in the U.S. have successfully recovered from the recession, they have shared their profits generously with their top executives and shareholders, while wages for frontline workers in these industries have remained stagnant:

- In the most recent fiscal year, the top-paid executive at each of these 50 companies was awarded an average **\$9.4 million in compensation** – even as many of their employees are paid at or near the minimum wage (just over \$15,000 per year).⁵
- The top 50 low-wage employers have distributed **\$174.8 billion in dividend payments and share buybacks** to their stock holders over the past five fiscal years.⁶

These numbers make clear that most of the low-wage employers that would be disproportionately affected by an increase in the minimum wage are in a strong financial position and can afford the cost of a higher minimum wage. The fact that post-recession profit growth for these businesses has not resulted in higher wages for the lowest-paid workers in their industries reveals the critical importance of a strong minimum wage in setting fair pay standards.

3. In Focus: The Top Three Low-Wage Employers

The three largest low-wage employers in the United States – Wal-Mart, Yum! Brands (the operator of fast food chains Pizza Hut, Taco Bell, and KFC), and McDonald's – offer a revealing look at the resiliency of low-wage employers in the post-recession economy.



Each of these corporations was profitable during all of the last three fiscal years, and each of them now earns profits that are substantially higher than their pre-recession levels, even after adjusting for inflation.

Source: NELP analysis of Standard & Poor's Capital IQ database

As their profits have rebounded, these companies have awarded their top executives multi-million dollar compensation packages. At the same time, a very large amount of firm revenue has been returned to shareholders through dividends and stock buybacks. These dividends and buybacks total thousands of dollars per employee each year. Together, the richness of the CEO compensation packages and the dividends and paybacks generated by employees illustrate the resources readily available to cover the cost of a higher minimum wage.

Table 2: Executive compensation and dividends/share buybacks (most recent fiscal year)

	Top executive compensation	Hourly compensation of top executive	Dividends and share buybacks	Dividends and share buybacks per employee
Walmart	\$18.1 million	\$9,066	\$11.3 billion	\$8,104
Yum! Brands	\$20.4 million	\$10,206	\$1.2 billion	\$1,401
McDonald's	\$4.1 million	\$2,037	\$6.0 billion	\$6,945

Source: NELP analysis of Standard & Poor's Capital IQ database

Conclusion

Those who oppose an increase in the minimum wage often argue that they are looking out for the best interests of low-wage workers. They suggest that even a modest increase in the minimum wage would force businesses to cut their payrolls, reducing employment opportunities for the very workers that this policy is intended to help.

In reality, however, the facts do not support the claim that employers cannot afford higher wages. As this report makes clear, the majority of low-wage workers are actually employed by large corporations. Financial indicators for the nation's top low-wage employers show that most are in a strong financial position, are earning profits above their pre-recession levels, and are sharing those profits generously with their top executives and shareholders. Taken together, these indicators show that the nation's top low-wage employers can readily afford to pay for a higher minimum wage for their lowest-paid employees.

Appendix I: Financial Condition of 50 Largest Low-Wage Employers (ranked by size of U.S. workforce)

Company	U.S. Workforce	Top Executive Compensation (Last Fiscal Year)	Profitable In Last Fiscal Year	Profitable Over Last 3 Fiscal Years	Current Levels as Compared to Pre-Recession Levels			
					Higher Revenue	Higher Profits	Higher Operating Margin	Higher Cash Holdings
Wal-Mart Stores, Inc.	1,400,000	\$ 18,131,738	x	x	x	x	X	x
Yum! Brands, Inc. (Taco Bell, Pizza Hut, KFC)	880,330	\$ 20,411,852	x	x	x	x	x	x
McDonald's Corp.	859,978	\$ 4,073,748	x	x	x	x	x	x
Target Corp.	365,000	\$ 19,707,107	x	x	x	x		
Sears Holdings Corporation	264,000	\$ 9,932,924						
Doctor's Associates, Inc. (Subway)	250,810		x		x	x		
Burger King Holdings, Inc.	191,815	\$ 4,015,619	x	x	x		x	x
ARAMARK Corporation	180,000	\$ 7,379,520	x		x	x		x
Starbucks Corporation	176,533	\$ 16,079,480	x	x	x	x	x	x
DineEquity, Inc. (Applebee's, IHOP)	173,350	\$ 5,392,402	x		x	x		x
Compass Group PLC	171,596	\$ 3,649,441	x	x	x	x	x	x
Macy's, Inc.	171,000	\$ 17,650,702	x	x	x	x	x	x
The Wendy's Company	168,672	\$ 16,537,725	x		x		x	x
Darden Restaurants, Inc. (Olive Garden, Red Lobster, Capital Grille)	165,475	\$ 8,480,148	x	x	x	x	x	x
J. C. Penney Company, Inc.	159,000	\$ 53,281,505						
Kohl's Corp.	142,000	\$ 9,422,443	x	x	x	x	x	x
Dunkin' Brands Group, Inc.	132,000	\$ 1,957,925	x	x				
The TJX Companies, Inc. (T.J. Maxx, Marshall's)	129,600	\$ 11,087,649	x	x	x	x	x	x
Sodexo S.A.	117,323	\$ 4,690,465	x	x	x	x	x	x
Domino's Pizza, Inc.	98,220	\$ 6,348,151	x	x	x	x	x	x
Sonic Corp.	92,800	\$ 1,918,812	x	x				x
Jack in the Box, Inc.	90,747	\$ 5,305,780	x	x				
Dollar General Corporation	90,000	\$ 3,832,369	x	x	x	x	x	x
Brinker International, Inc. (Chili's)	85,952	\$ 3,618,325	x	x			x	
Bloomin' Brands, Inc (Outback Steakhouse)	85,200	\$ 8,547,239	x					
Abercrombie & Fitch Co.	81,474	\$ 48,069,473	x	x	x			x
Denny's Corporation	72,415	\$ 2,329,017	x	x		x	x	
Papa John's International, Inc.	72,000	\$ 2,745,219	x	x	x	x	x	x
Dollar Tree, Inc.	71,046	\$ 6,144,416	x	x	x	x	x	x
Panera Bread Co.	67,755	\$ 3,023,829	x	x	x	x	x	x
Cracker Barrel Old Country Store	67,000	\$ 6,437,444	x	x	x			x
CKE Restaurants, Inc.	63,861	\$ 4,485,055						x
Ross Stores, Inc. (Carl's Jr, Hardee's)	53,900	\$ 12,478,239	x	x	x	x	x	x

Seven & I Holdings (7-11)	53,784		x	x			x	x
Buffalo Wild Wings, Inc.	52,745	\$ 2,115,112	x	x	x	x	x	
Family Dollar Stores, Inc.	52,000	\$ 4,747,395	x	x	x	x	x	
Bob Evans Farms, Inc.	46,818	\$ 3,634,208	x	x		x	x	x
Alimentation Couche-Tard, Inc.	44,892	\$ 3,509,252	x	x	x	x	x	x
(Circle K)	43,624	\$ 9,711,500	x	x			x	
Gap, Inc.	42,799	\$ 4,633,115	x					
Ruby Tuesday, Inc.	36,112	\$ 14,404,763	x	x	x			x
American Eagle Outfitters, Inc.	35,399	\$ 11,924,662	x	x	x	x	x	x
Big Lots, Inc.	34,952	\$ 6,941,935	x					x
Office Depot, Inc.	33,000	\$ 614,800	x	x	x	x		x
Texas Roadhouse, Inc.	32,991	\$ 8,861,104	x	x	x			
Staples, Inc.	32,200	\$ 4,136,642	x	x	x	x	x	x
The Cheesecake Factory Inc	30,940	\$ 19,391,571	x	x	x	x	x	x
Chipotle Mexican Grill, Inc.	30,254	\$ 2,467,703	x	x	x			x
Red Robin Gourmet Burgers, Inc.	30,000	\$ 1,888,341			x			
Barnes & Noble, Inc.	29,289	\$ 4,922,655	x	x	x	x	x	x
Total	7,852,651	\$ 451,070,519	92%	78%	75%	63%	63%	73%
Average	157,053	\$ 9,397,302						

* Fields are shaded where data was not available

Source: NELP Analysis of Standard & Poor's Capital IQ database. See Appendix II for detail on sources and methodology.

Appendix II: Notes on Sources and Methodology

- 1) *Financial Indicator Comparisons:* For the top 50 employers in low-wage industries by U.S. employment (identified as detailed below), retrieved a range of financial data from the five most recent fiscal years using Standard & Poor's Capital IQ. For non-U.S.-based companies that report their financial results in other currencies, converted all figures to U.S. dollars based on the historical exchange rate for the year in which the results were reported.
- 2) *Pre and Post-Recession Comparisons:* Evaluation of pre and post-recession financial performance in Appendix I and Figure 4 was based on comparison of selected financial indicators from the most recent available fiscal year with those of the fiscal year four years prior. For example, for companies whose most recent fiscal year ended in 2011, post-recession financial performance was evaluated by comparing indicators from FY 2011 with those from FY 2007. However, for the many retailers that have fiscal years ending in January (in order to include holiday sales), compared indicators for FY 2012 with those for FY 2008. Because pre-recession financial data was unavailable for two of the 50 companies, Dunkin' Brands, Inc. and Bloomin' Brands, Inc., some of the summary figures are based on the top 48 companies rather than the full 50.
- 3) *Identifying Top 50 Employers in Low-Wage Industries:*
 - a. *Identifying Low-Wage Sectors:* Using BLS/Current Population Survey report on Characteristics of Minimum Wage Workers (<http://www.bls.gov/cps/minwage2011tbls.htm#5>), identified three sectors that together employ 69.9% of workers paid at or below the minimum wage – 2.96 million workers at or below the minimum wage out of 3.8 million nationally. Sectors: Leisure and Hospitality, Retail Trade, Education and Health Services. Using crosswalk of Census Industry Classifications to 2007 NAICS codes (<http://www.bls.gov/cps/cenind.pdf>), pulled NAICS sector codes associated with each sector identified. (Retail Trade (44-45), Leisure and Hospitality (71-72), Education and Health Services (61-62).
 - b. *Identifying Lowest-Wage Industries within Low-Wage Sectors:* Using industry-specific employment and wage estimates from the BLS Occupational and Employment Statistics (OES) program (http://www.bls.gov/oes/oes_dl.htm), identified industries that fall within the sectors identified in (a). Filtered these industries to identify those for which the median percentile hourly wage is \$10.00 per hour or less. This yielded 12 industries encompassing 13.6 million total employees. Using crosswalks of 2007 NAICS to 2002 NAICS to 1987 SIC, translated Low-wage NAICS industry codes into SIC codes.
 - c. *Identifying Companies within Low-Wage Industries:* Used Capital IQ Screening tool to generate a list of companies meeting the following criteria: Primary SIC Code matches low-wage list generated in (b); Incorporated in the US; FY 2011 Total Revenue >\$0. Yield: 106 companies (102 after de-duping by parent company and removing firms without reported employees. Then used Capital IQ Screening tool to generate a second list of global companies that do not report U.S. locations, yet have substantial U.S. segment revenue and meet the following criteria: Primary SIC Code matches low-wage list generated in (b); NOT Incorporated in the US; Geographic Segment Revenue: United States Segment Revenue >10%. Yield: 5 companies. Then removed companies from list whose primary business is operating franchised locations of brands owned by other companies on the list, removed companies from the list that have starting wages above \$10.00 per hour (source: Glassdoor.com employee-generated reports), and added companies that are large franchisors in low-wage industries, using the Franchise Times 2011 list of Top 200 Franchisors ([link](#)).
 - d. *Determining Companies' U.S. Workforces:* Using available public information, estimated each company's total U.S. workforce. When possible, pulled the U.S. workforce from public companies' SEC filings. When SEC filings were unclear or unavailable, calculated estimated U.S. workforce numbers based on a range of sources, including press reports, ratio of U.S. locations to overseas locations, and public estimates of average workers per location. For franchisor companies, attributed all estimated U.S. employment by franchisees to the franchisor itself. This attribution is justified given the widely-

recognized significant degree of influence that franchisors exercise over the business operations of franchisees.

Endnotes

¹ NELP analysis using Consumer Price Index, available at <http://www.raisetheminimumwage.com/facts/entry/amount-with-inflation/>

² David Reilly, "U.S. Tax Haul Trails Profit Surge," *Wall Street Journal*, Jan. 4, 2012, available at <http://online.wsj.com/article/SB10001424052970204368104577138891310893150.html>

³ NELP analysis of Current Population Survey (2009-2011).

⁴ U.S. Department of Labor, Bureau of Labor Statistics, "Occupational Employment Projections to 2020," published in the *Monthly Labor Review*, Jan. 2012, available at http://www.bls.gov/emp/ep_table_104.htm

⁵ Executive compensation data unavailable for Doctor's Associates, Inc. and Seven & I Holdings.

⁶ Dividend payment and share buyback data unavailable for Doctor's Associates, Inc. and Seven & I Holdings.