Cost Cutting Strategies for Recovery in the Post-COVID Era

An eBook for Hospitality and Retail Professionals

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The Impact of COVID-19 on Small Businesses

Small and medium businesses are a vital part of the United States' economy, but it would be an understatement to say that the past year has put them through the wringer. The COVID-19 pandemic created a grueling cycle of lockdowns, reopenings, and more lockdowns, forcing huge expenses that put many businesses across the U.S. — and around the world — in a dire financial situation.

Small and medium-sized businesses employ about 58.9 million people or roughly 47.5% of the total U.S. private-sector workforce. But in the wake of COVID-19's devastation, some economists project that more than 100,000 of these businesses have closed permanently. The majority of companies that managed to stay open have had to pivot their business models, adjust to new operations, and deal with several new expenses — with fewer paying customers.

According to Axios, some small business owners spent the equivalent of a month's worth of profit on precautionary equipment before reopening their doors. These expenses include but aren't limited to:

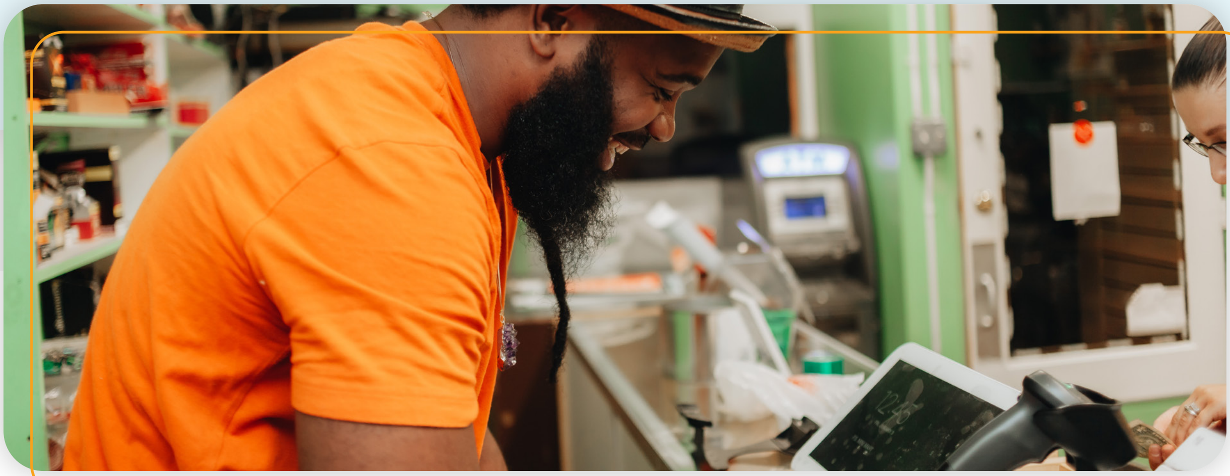
- Personal protective equipment (PPE) for employees
- Plexiglass and other interior safety measures
- Takeout packaging
- New signage
- Delivery costs

Thankfully, there's a light at the end of the tunnel — economists from UBS project the U.S. economy to grow 7.9% in 2021. Vaccines are rolling out worldwide and across the U.S., where governors are beginning to reopen their states. People who have been stuck inside for months on end are eager to resume their pre-pandemic lives.

Restaurant sales are expected to grow 10.2% to $731.5 billion in 2021. (NRA)

Retail sales are expected to grow between 6.5-8.2% or $4.3-4.4 trillion in 2021. (NRF)

About 56% of consumers say they expect to travel for leisure, roughly the same amount as in an average year. (AHLA)



As the recovery process gets underway in earnest, it will be necessary for small business owners to keep a tight rein on their overhead expenses as they navigate the complex new landscape

Post-COVID Recovery Strategy - Cost Control is Key

Business owners and operators will face many issues in the post-pandemic economy. Still, they'll need to stay focused on two main concerns during the pandemic recovery period: business growth and financial stability. And that's where outsourcing core business functions like HR and payroll could be a secret weapon.

As the economic landscape continues to shift, an opportunity has arisen for many businesses that may have previously been reluctant to consider outsourcing HR functions. **According to Deloitte, an organization can reduce operating expenses by 25-60% by outsourcing non-core functions.** Companies that outsource administrative functions can reinvest those savings in strategic projects.

As we'll show in the eBook, outsourcing models like Professional Employer Organizations were game-changers for some during the pandemic, and they'll be an essential lifeline in the post-COVID era. In the coming pages, we'll explore how outsourcing HR and payroll functions can help your business reduce costs, maintain compliance, drive growth and achieve financial stability in this new landscape. Let's dive in.

Maintain Compliance and Minimize Risk

Businesses that have struggled with HR compliance issues in the past will need to be very careful in the post-COVID landscape. These struggles aren't hard to understand — human resources is a complex business function with many moving parts, and small businesses (or those who are stretched thin by understaffing) frequently face challenges juggling it all. Small and mid-size companies who don't have a dedicated HR department (or who only have a small HR staff) can sometimes find themselves overwhelmed with the sheer amount of admin work.

In businesses without a full-time HR professional (perhaps it doesn't make sense for your size, or you had to make cuts in that area recently), these responsibilities can often fall to store managers or even the owner. That administrative burden can monopolize time and energy that is better spent on revenue-generating initiatives and a laser-focus on recovery. When HR tasks become overwhelming, things start to fall through the cracks. It opens the business up to risk. Handling HR requires a deep understanding of the federal, state, and local laws that might impact a business — and that's no small feat, given how often hourly workforce laws evolve.

What's more, pandemic-related compliance will likely continue to be a concern throughout 2021. A report from Chicago law firm Seyfarth Shaw LLP found that COVID-19 sparked more than 1,000 workplace lawsuits in 2020 and that "even more" pandemic-inspired lawsuits are likely in 2021.

> "We anticipate that the tide of workplace class action litigation will continue to rise in several key areas such as discrimination and workplace bias, wage & hour, as well as on the health & safety front. Employers are apt to see these workplace class actions expand and morph as businesses restart operations in 2021 in the wake of COVID-19, particularly as courts roll out a patchwork quilt of rulings."
>
> - Seyfarth Shaw LLP

Companies that are still reeling from COVID furloughs and layoffs need time to focus on bringing back team members and establishing financial stability. Fully outsourcing HR administration to a PEO or a few non-core responsibilities to an HRO can ensure compliance with evolving regulations while protecting the business from costly penalties, fees, or lawsuits.

Offload Payroll Administration and Avoid Errors

Managing payroll in a hospitality or retail business is a complicated and often thankless task. But it's essential to get it right because payroll processing mistakes can hurt companies in more ways than one. And when the focus should be pandemic recovery, pesky payroll issues are the last thing anybody wants.

Still, there's a lot to keep track of, and mistakes happen. In fact, they happen pretty frequently. To minimize the risk of fines, be sure to avoid these four mistakes:

1. Misclassifying Employees

The Fair Labor Standards Act (FLSA) states that employees must be classified as non-exempt, exempt, or independent contractors.

Nonexempt employees have the right to protections like minimum wage and overtime pay as stipulated in the FLSA.

On the other hand, exempt employees are paid a fixed salary and don't qualify for overtime. But to be eligible for exempt status, the job must meet specific duty requirements and pay minimum salaries - which vary by state and can be as high as $58,500 in NYC.

Independent contractors, employees typically brought in on a short-term basis, are not covered by the FLSA. The U.S. Department of Labor has strict guidelines around clarifying this status.

Employee misclassification results in inaccurate compensation and affects the Social Security and Medicare tax amounts collected by the federal government and deprives employees of deserved benefits.

2. Not Paying for All Hours Worked

It seems simple, but business owners need to make sure they pay their employees for all of their hours at an accurate pay rate. It starts to get complicated when employers fail to include the time it takes to change into a work uniform, drive to a different job site, or participate in a training session. It also includes unauthorized employee work — even if an employee was not asked to work a particular shift. Businesses can take disciplinary action if necessary after the fact, but payment to that employee is still required.

Other issues surrounding accurate pay include the frequently changing minimum wage rates, tip rules, and the growing support for Fair Workweek Rules that include predictive scheduling and rest between shifts legislation. Wage and hour legal disputes have been on the rise for several years. The city of Seattle has increased employee payouts over wage and scheduling disputes from $26,000 in 2014 to almost $4 million in 2020. These lawsuits are typically the result of paying below minimum wage, tip payout discrepancies, and not reporting overtime. As the laws get more complicated and more varied from market-to-market, fines are unlikely to slow down anytime soon.

3. Overtime Miscalculation

Paying overtime is a constant worry for hospitality and retail business owners, finance teams, and in-store managers. If you don't pay the correct overtime amount, your business will owe wages, penalties, and interest. Failure to comply results in penalties, so businesses who don't pay for overtime, underpay for hours worked, or pay the wrong rate will end up paying more overall.

4. Mishandling Tips

Hospitality businesses also need to comply with requirements around tips, but incorrectly applying these rules is a common error.

First, there are tip credit regulations. The FLSA as well as most states allow businesses to pay an hourly below minimum wage and count reported tips as a credit toward that minimum wage. If an employee's tips don't reach that minimum wage threshold, the business is responsible for making up the difference in compensation called a tip shortfall. Employees can only receive tip credit for work that generates tips — generally if an employee spends more than 20% of their work hours on non-tipped work, then business owners must pay them the full minimum wage.

Employers also need to stay on top of tip pooling regulations. Effective on April 30, 2021 a major change to the tip pooling rules will take effect - allowing employer mandated tip pools to include 'back of house staff IF the employer pays full minimum wage (no tip credit) to the service staff AND that none of the tips are shared with owners or supervisors.

In light of payroll's complexity, many businesses choose to outsource these functions to an HR or payroll services provider to ensure accurate, timely, compliant processes. As wage and scheduling compliance grow more complex across the country, entrusting payroll to a partner can free up time to focus on business growth.

Hire and Retain Great Teams

After a rough year with many false starts and sudden stops, small businesses worldwide have had to make difficult cuts to stay afloat. These businesses want to retain the employees they still have on staff, partially dependent on efficient HR administration. Few things frustrate employees more than inaccurate paychecks — not to mention the hoops they must jump through to resolve discrepancies.

The Benefits of Benefits

Retention is also closely correlated to benefits — health insurance, retirement plans, long- and short-term disability, and more. Health insurance is a hotter topic than ever in light of the pandemic, but it's still rare for small businesses to offer it.

Research shows that offering health insurance options can improve recruitment and lower turnover. According to a Society for Human Resource Management (SHRM) study, 46% of surveyed employees said health insurance coverage influenced their decision to work for that particular company. Furthermore, 78% said their health insurance coverage was a factor in their decision to stay in their current job.

Lowering your business's turnover rate can make a huge difference, especially when the hospitality sector's turnover rates are so notoriously high and the process costs thousands upon thousands of dollars. Competitive, affordable benefits can help reduce the need to replace employees, a costly endeavor that eats up resources and takes quite a bit of effort.

HR outsourcing companies often offer access to high-quality benefits packages that only much larger organizations could afford. Such packages make your business more attractive and competitive with current employees and prospective hires.

30%

Only 30% of U.S. businesses with fewer than 50 employees provide health insurance to workers

97%

More than 97% of U.S. businesses with more than 50 employees provide health insurance

Outsourcing ROI: Drive Growth with a Trusted Advisor

Beyond helping to maintain compliance, improve employee satisfaction, and avoid costly mistakes, outsourcing certain HR functions can have real financial impacts for small businesses.

PEOs are one such outsourcing model, providing small- and mid-sized businesses with comprehensive HR and payroll solutions. These organizations handle employer responsibilities like:

- Payroll processing and tax filing services
- HR administration
- Employee benefits services
- Tax administration
- Risk and compliance assistance

When a business partners with a PEO, a co-employment agreement is created. This co-employment model establishes the business's workers as both company and PEO employees, allowing them to distribute responsibilities to the PEO. Typically, the PEO would become the employer of record, handling payroll administration, tax filing, HR support, benefits, and more.

Businesses in a PEO arrangement:

- Grow 7-9% faster
- Have 10-14% lower turnover
- Are 50% less likely to go out of business
- Enjoy an annual cost savings of $1,775 per year per employee, resulting in a yearly ROI of 27.2%.

The past year was devastating for small businesses, but data shows that companies in a PEO agreement tended to fare better than those who don't outsource. In a recent study, the National Association of Professional Employer Organizations (NAPEO) found that:

Only **28%** of small businesses that don't use PEOs experienced growth in 2020.

Yet, **68%** of small business PEO clients experienced growth in 2020.

This data shows that PEOs can help business owners navigate volatile and risky times, acting as another valuable business guidance source. Another recent NAPEO study examined the impacts PEOs had on their clients' business outcomes throughout the first few months of the COVID-19 pandemic.

The study found that businesses with a PEO partner fared much better in securing critical Paycheck Protection Program (PPP) loans than those who didn't have a partner. According to NAPEO, PEO clients were:

- 119% more likely to have received PPP loans
- 72% more likely to have received PPP loans in Round 1
- 60% less likely to have permanently closed

Choosing the Right Outsourcing Partner

It's been a tumultuous time for small businesses and their employees — especially hospitality and retail workers. But with hope on the horizon, it's time to start thinking about what the future of business looks like in this new normal. The road to recovery for these important service industries will require companies to be innovative, focused, compassionate, and above all - agile.

The post-COVID era will present business owners with greater expectations regarding employee satisfaction, customer service, and government compliance. For many, the decision to outsource HR and payroll functions is the first step toward recovery through cost management and risk mitigation. Outsourcing also brings the added benefits of time savings and reduced overhead giving owners more time and money to focus on core business operations and making sound financial decisions that drive growth.

Fourth reduces the administrative burden and risks that come with managing your HR and payroll in-house so you can spend more time building a successful business. We offer a combination of integrated technology and expert services from applicant tracking and onboarding to benefits administration and payroll management - all purpose-built for service industries with hourly workforces. With multiple service options to choose from, we can customize a solution that will help you navigate the daunting complexity of today's HR challenges so you can focus on building and retaining great teams so you can come back stronger than ever. Integrated with HotSchedules workforce management applications, Fourth offers the most complete service industry solution on the market.

"In the first six months of working with Fourth, we have realized a company-wide savings of $40,000 on processing costs and fees alone. Now, Sun Pubs is on track to save $90,000 by the end of the year."

David Culhane, Sun Pubs Operations Director

About Fourth

We provide end-to-end, best-in-class technology and services for the restaurant and hospitality industries. Our inventory and workforce management solutions, coupled with the industry's most complete data and analytics suite, give operators the actionable insights they need to control costs, scale profitability, improve employee engagement, and maintain compliance. Headquartered in Austin, Texas, we serve more than 7,000 customers across 120,000 locations globally.

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