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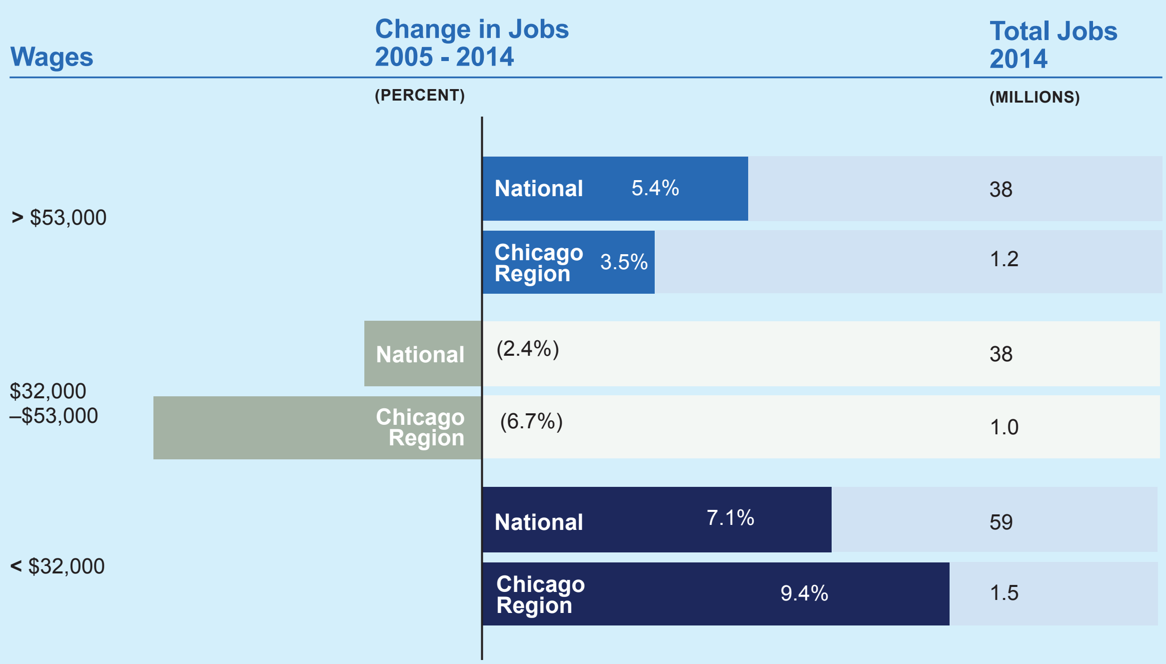
Improving Productivity, Opportunity, and Growth in the New Economy

Executive Summary

The economy continues to improve and unemployment has declined markedly over the past five years. But as a result of structural changes in the labor market, the middle class continues to shrink and job growth has been concentrated in low-wage positions. Over the entire economic cycle (since 2005), roughly 75% of job growth in the Chicago Region has been in jobs that pay less than $32,000 annually.[1] Nationally, about 66% of total job growth since 2005 has been in low-wage jobs. (See Exhibit 1)

EXHIBIT 1: **The New Economy Labor Market**



Source: Bureau of Labor Statistics OES data

[1] Chicago region is the Chicago Metropolitan division, which encompasses an eight county region in Northeastern Illinois

At the same time, the proportion of the country's working-age population that is employed has risen just one percentage point since the depths of the recession. These changes represent a continuation of long-term trends, as the nation shifts to a "new economy," based increasingly on service positions that tend to pay low wages.

The mix of work in the new economy has significant implications for growth, the public sector, and workers. While causation is difficult to disentangle, regions with greater disparity in incomes tend to grow more slowly than others. Even as unemployment decreases, the cost of public assistance programs remains high, as low-wage workers still require support. And as educational outcomes improve, increasing numbers of workers with secondary and postsecondary credentials face a labor market that provides few opportunities for advancement.

We estimate that if 100,000 low-wage jobs had instead been middle-wage jobs, Gross Regional Product would increase by about 0.2–0.4%. Additionally, the annual costs to Federal, State, and local governments of public assistance and tax incentives would decline by $300 million.

While labor market regulation and improved education and training are critical for promoting economic opportunity, they are unlikely on their own to reverse the current trends. An additional approach is to re-think the equation for productivity, from a singular focus on cost to a more balanced look at employee output and cost as dual levers to improve productivity and firm profitability. Strategies that invest in workers to increase their output and, through the resulting productivity enhancement, profit, can at the same time produce more sustainable jobs and opportunities for workers. We call these "win-win strategies."

In the retail sector, companies like ALDI, the Container Store, QuikTrip, and Trader Joe's have implemented win-win strategies. Our model suggests that improved customer service is the key driver of revenue and net profit growth in retail win-win strategies. As online formats grow, the ability to differentiate brick and mortar stores by implementing win-win strategies will be increasingly important.

In healthcare, those implementing win-win strategies empower front-line employees to become part of care teams, improving health outcomes while reducing overall system costs.

Despite established examples, implementing win-win strategies can be difficult, as they require re-thinking a firm's approach to providing customer value and re-defining roles within an organization. In some cases, making the shift requires a complete change in organizational culture. For public companies, the inability of capital markets to assess the value of long-term investments in employee output make implementing win-win solutions even more difficult.

This concept paper reviews some long-term changes in the economy and then outlines the drivers of win-win strategies in the healthcare and retail sectors. We end with several potential pilots that might lead to greater experimentation in these strategies. The goal is to create conditions that enable Chicago to tackle one of the most pressing issues of our time – stagnating economic mobility and economic growth – and thus to create a region that is a better place to live, and do business.

Background

Continuing long-term trends, the labor market looks fundamentally different in the New Economy.

Across the nation and in the Chicago region, the economy has been recovering from the Great Recession. Gross Domestic Product has been growing consistently over the past six years. Since 2010, the nation has added nearly 10 million non-farm jobs, while unemployment fell from a high of 10% in October of 2008 to 5.3% in June of this year.[2] In the Chicago Region, unemployment also fell, from a high of more than 12% in January of 2010 to 6.3% in June, while the Region added more than 300,000 jobs over the same period.[3]

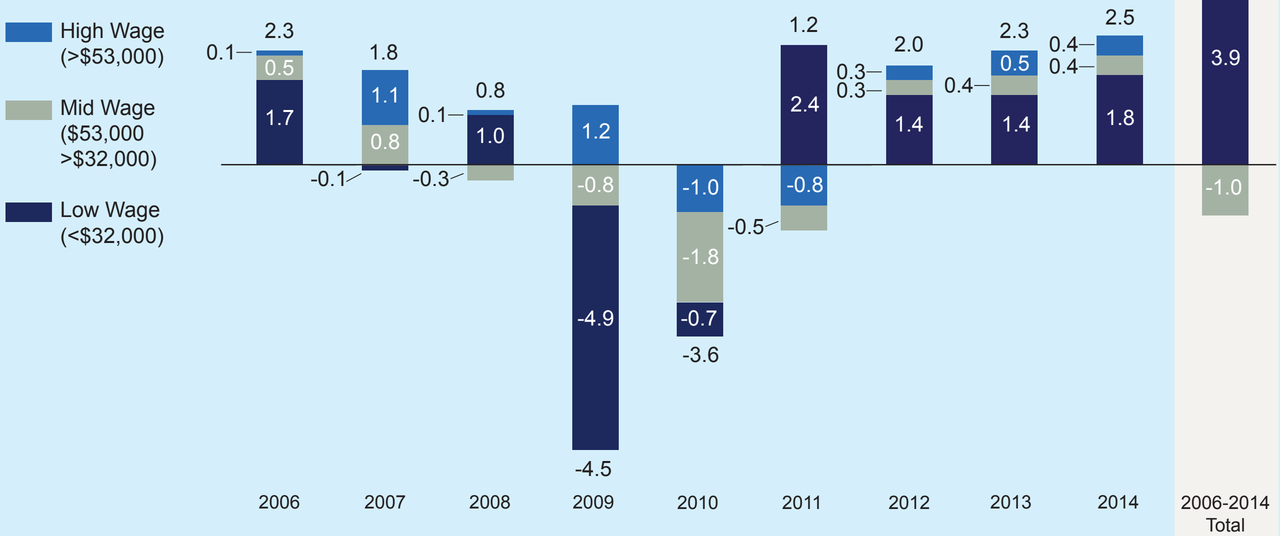
At the same time, the labor market has changed in fundamental ways. Even after six years of economic growth, the employment-population ratio (the proportion of the country's working-age population that is employed) remains at about 59.5%, just one percentage point greater than during the depths of the recession, and about four points less than before the recession.[4, 5] The drop in working-age participation was exacerbated by the Great Recession, but remains on an overall 15-year decline. The current level of participation hasn't been this low since the mid-1980s.

Perhaps most striking, job growth in Chicago and across the nation has been concentrated in positions that pay low wages. Nationally, about 66% of total job growth since 2005 has been in low-wage jobs. In the Chicago Region, over the entire economic cycle (since 2005) roughly 75% of job growth has been in low-wage positions that pay $32,000 annually, (See Exhibit 2).[6]

In 2014, the Chicago Region was home to 1.5 million low-wage jobs, making up roughly 40%

EXHIBIT 2: Job Change by Wage Tiers

Millions of jobs gained or lost from previous year, United States, 2006 – 2014



Source: National OES data: wage tiers based on actual wages within ocupations

[2] U.S. Department of Labor, Bureau of Labor Statistics, April 2015

[3] Chicago-Joliet-Naperville Region; U.S. Department of Labor, Bureau of Labor Statistics, July 2015

[4] Compared to the Labor Market Participation Rate, the employment-population ratio is preferred, as it removes the effect of an aging population on labor market participation

[5] U.S. Department of Labor, Bureau of Labor Statistics, September 2015

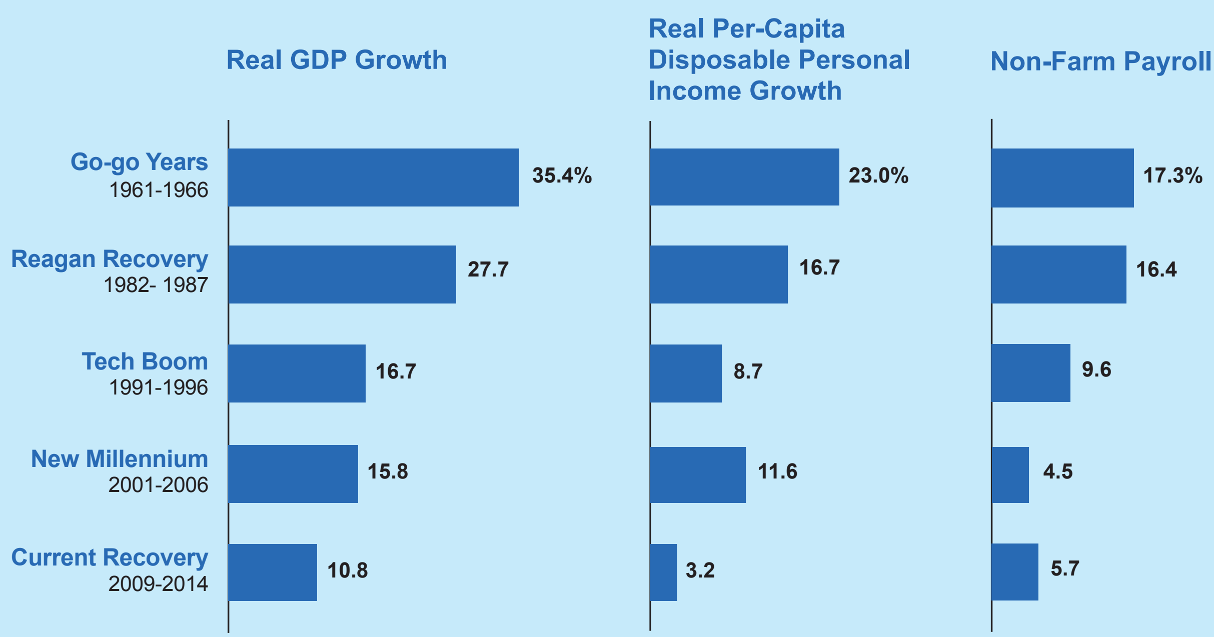
[6] While there is no accepted definition of a "low-wage" job, $32,000 is roughly 1.5 times the poverty level for a family of 3, and is used by most researchers to define low-wage work. To make our analyses comparable to others, we have used this definition for low-wage (and $53,000 as the cut-off for high-wage jobs, for the same reason)

of all jobs in the region. As with overall labor market participation, the growth in low-wage jobs over the past economic cycle is the continuation of a longer-term trend, which has impeded economic mobility across the nation. In the U.S., median wages today are no greater than they were 20 years ago, and in Illinois, median income is roughly 11% less than it was in 2000.

Importantly, low-wage jobs today are for the most part held by adults, many supporting families. A 2013 study by the Economic Policy Institute found that the low-wage workers are on average 35 years old, 88% are over 20 years old, and 28% have children.[7]

More challenging still, this growth in low-wage work has been paired with a hollowing out of the middle-class. Nationally, middle-class jobs have declined since 2005 by about 2.4%, and by about 6.7% in the Chicago region (Exhibit 1). This phenomenon is well-documented and likely a lasting feature of the labor market.[8] While opinions differ on why these changes are taking place, two significant factors – the automation of routine work and globalization of labor markets – suggest that the changes are structural, rather than cyclical in nature. Recent research has demonstrated that recessions are becoming the periods when permanent dislocations take place, an idea that finds support in the markedly changing nature of post-recession recoveries (See Exhibit 3).[9]

EXHIBIT 3: First Five Years of Recoveries



Source: Pew Research Center analysis of BEA, BLS data, June 2014

[7] Economic Policy Institute. *Low wage workers are older than you think*
[8] See *The growth of low-skill service jobs and the polarization of the US labor market* by Autor and Dorn (2013)
[9] See Jaimovich and Siu. The Trend is the Cycle: *Job Polarization and Jobless Recoveries,* National Bureau of Economic Research. (2012)

Background

The New Economy labor market has significant implications for regional growth and the public sector, in addition to workers.

The “new economy” labor market that has emerged through the trends described above is characterized by fewer jobs commanding middle-class wages and more jobs, often customer-facing service positions, paying low wages. This mix has implications for regional growth and the public sector, in addition to the workers themselves.

While cause and effect are difficult to disentangle, the correlation between economic growth and wage disparity in a region is strong: regions with less disparity grow faster than those with greater disparity (Exhibit 4). With more than two-thirds of the economy driven by consumer spending, it appears that a shrinking middle class cannot support broad economic expansion.

EXHIBIT 4: Correlation of Regional Growth and Equity*

192 metro regions in U.S. between 1980 and 2000

Growth Index \ Equity Index	Worst	Middle	Best	TOTAL
TOTAL	**64**	**64**	**64**	**192**
Best	13	18	33	**64**
Middle	17	24	23	**64**
Worst	34	22	8	**64**

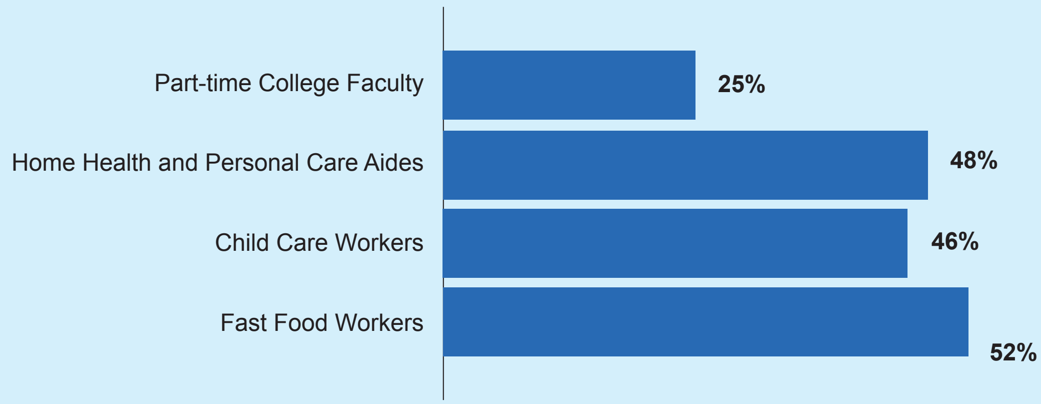
Source: *Just Growth* by Chris Benner and Manuel Pastor (2012)
* Growth index is based on changes in earningsper job and in employment.
Equity index is based on changes in percent below poverty and in the 80–20 household income ratio

Background

Beyond adding headwinds to overall economic growth, the changing labor market creates a persistent burden on public sector spending. Even though unemployment is decreasing, reliance on public assistance (through TANF, SNAP, child care, etc.) is not dropping at the same rate, since many low-wage workers still require public assistance (Exhibit 5). Nearly three-quarters of the people helped by programs geared towards low-income individuals are members of a family headed by a worker.[10]

Finally, the growth in low-wage employment relative to middle- and high-wage jobs exacerbates the problem of stagnating economic mobility. Low-wage jobs are often associated with fluctuating work schedules and hours and fewer job protections.[11] These make the pursuit of the education and training needed to advance economically exceedingly difficult. And, even for workers who are able to access training, too often the next “rung” on the ladder is missing or already filled by a highly trained worker.

EXHIBIT 5: **Public Assistance Rates for Low-Wage Workers**



Note: Workers and/or their dependents were enrolled in at least one of these four programs: Medicaid/CHIP, TANF, EITC, SNAP
Source: The High Public Cost of Low Wages, UC Berkeley Center for Labor Research and Education, April 2015

[10] *The High Public Cost of Low Wages*, UC Berkeley Center for Labor Research and Education April 2015
[11] *How erratic schedules hurt low-wage workers*, Chicago Tribune, September 6, 2015

A change in these trends would impact the economy, the public sector, and working families.

If growth over the past decade were skewed differently, such that 100,000 low-wage jobs of today (about 7% of the low-wage jobs in the Chicago region) paid just enough to make them middle-wage jobs, Chicago's Gross Regional Product would be approximately $1-2 billion greater than it is today, a permanent increase of about 0.2-0.4%.[12] The same shift would decrease by approximately $300 million public assistance and tax incentives provided by Federal, State, and local governments in the Chicago region each year.[13]

While these calculations are thought-provoking, creating such a change in the economy would require long-term, sustained effort. But less dramatic increases in mobility are likely to have significant, positive effects on the economy, public aid, and workers, and represent an important area for further study.

Perhaps the greatest long-term impact of moving working families out of poverty would be on children in low-wage households. According to the Annie E. Casey Foundation, even after 3 years of economic recovery, more children in Illinois were living in poverty in 2013 than before the start of the recession.[14] The impacts on children are far-reaching. For instance, pre-schoolers whose mothers work non-standard schedules exhibit more negative behaviors, such as depression, anxiety, withdrawal, and aggression.[15]

Children growing up in poverty complete less schooling, work and earn less as adults, are more likely to receive public assistance, and have poorer health than those growing up in non-poverty households. The costs to the U.S. economy associated with child poverty are about $500 billion annually, the equivalent of nearly 4 percent of GDP.[16] Finally, early childhood and other programs aimed at helping lift kids out of poverty are less effective when parents are themselves poor. Indeed, the likelihood that an adult of 30 or 35 will live in poverty is markedly higher for an individual who spent part of their childhood in poverty.[17]

Public sector solutions are critical for addressing the loss of middle class employment, but unlikely on their own to reverse the trend of declining economic opportunity.

Education and Training

Education and training are among the most important investments any government can make in the future well-being of its economy and residents. In today's increasingly global, technology-enabled economy, one's chances of employment and higher wages increase in direct proportion to one's level of education.[18] And for a region as a whole, it is reasonable to believe that long-term increases in the skill and productivity of the labor force will lead to job growth. Indeed, more educated cities grow more quickly than comparable cities with less education.[19]

However, better education and training alone are not likely on their own to solve the problems caused by the mix of middle-wage and low-wage jobs. Indeed, educational attainment has been increasing steadily for more than 20 years, and 44% of low-wage workers today have some college education, even though employers say they cannot find the skilled

[12] Based on $9,000 annual wage increase and economic impact multiplier of 1.5-2.0
[13] Based on $6,100 in State and Public assistance to average low-wage worker, with approximately half ($3,000) saved for every worker moved to a better paying job
[14] *2015 Kids Count Data Book: State Trends in Child Well-Being*
[15] *Five Social Disadvantages that Depress Student Performance.* Economic Policy Institute. June 2015
[16] Holzer, H., Schanzenbach, D., Duncan, G., & Ludwig, J. (2007). *The economic costs of poverty in the United States: Subsequent effects of children growing up poor.* Washington, DC: Center for American Progress
[17] *Childhood Poverty and Intergenerational Mobility,* Fass, Dinan, and Aratani (2009).
[18] While there are many examples where individuals with more education earn less than those with less, the overall trend of increasing employment and wages with greater educational achievement remains strong
[19] *The Rise of the Skilled City*, Edward L. Glaeser and Albert Saiz, Working Paper 10191, National Bureau of Economic Research

labor they need.[20, 21, 22] Why is this?

First, the "skills gap," which suggests large numbers of jobs would be filled were more skilled workers available, appears overstated. In the case of manufacturing, for example, Weaver and Osterman found that three-quarters of manufacturers did not show signs of hiring difficulties when examined closely, and that those manufacturers with significantly higher skill demands do not have significantly greater hiring problems, as one would expect were a lack of skills leading to unfilled jobs.[23] No doubt firms would rather find more efficient ways to fill jobs, and they often reply in surveys that they cannot find the labor they would hope to be able to hire. But it appears most find ways to obtain the labor needed if doing so is required for generating revenue. More generally, large absolute numbers of openings are often very small on a percentage basis (less than 5% in a job category), less than what would be expected through natural churn in a job market.[24] Increasing the cost efficiency of identifying and training employees would not, in these cases, lead to job growth.

Where jobs go unfilled because of a lack of skills, wages rise, as evidenced in occupations such as welders and IT professionals. Indeed, gaps where education and training will lead to an increase in employment exist primarily in highly technical occupations, which tend to be high-paying.

Second, credential requirements for existing jobs have been increasing over the past several years. For example, for selected office and administrative functions (executive secretaries/assistants and insurance claims clerks), 20% of current job holders have a Bachelor's degree, but 45% of job postings require a Bachelor's degree, according to a report by Burning Glass. While this growth in credential requirements sometimes reflects a shift in underlying job responsibilities, it sometimes reflects a movement by businesses to use college degrees as a proxy for hard-to-measure inter- and intra-personal skills.[25]

Third, it is unclear whether workforce training programs are generating new jobs in a region or selecting who will fill existing jobs. No doubt a highly educated workforce attracts employers and jobs in specialized, high-wage fields. The movement of biotech jobs from Illinois to California demonstrates where the benefits of a highly skilled workforce outweigh the costs of moving jobs to a high-cost environment.

To be sure, programs that help qualified workers from traditionally excluded groups (e.g., minority, long-term unemployed) have a fair shot at a job serve an important purpose: neither business nor society benefits from excluding qualified employees from the workforce. But selecting who fills a job does not change the overall picture of job demand in a region, nor does it lead to an increase in overall economic mobility if the job were going to be filled, regardless of the program. More needs to be understood about where workforce training leads to a net increase in employment and economic mobility for a region.

Finally, there are inherent limitations in the practicality of moving low-wage workers to better jobs through education and training. Many low-wage jobs, in particular those in retail, provide unpredictable work schedules, making it impractical to attend classes and training programs. The multiple, complicating factors that make the life of the working poor inherently chaotic (e.g., a car repair sets off a series of difficult decisions, such as whether to pay rent or feed the children this month) reduce one's ability to make long-term investments in education and training. Finally, many of the fastest growing low-wage jobs (home health care workers, for examples) are jobs we want, as a society. If we are able to provide a low-wage worker training

[20] National Center for Education Statistics, *Fast Facts – Educational Attainment*
[21] Economic Policy Institute, *Low wage workers are older than you think*, August 2013
[22] Bureau of Labor Statistics. *Fastest Growing Occupations*, 2015
[23] *Skill Demands and Mismatch in U.S. Manufacturing: Evidence and Implications*, Andrew Weaver and Paul Osterman, November 2013
[24] JP Morgan Chase New York and Chicago Skills Gap reports
[25] *Moving the Goalposts: How Demand for a Bachelor's Degree is Reshaping the Workforce,*

for a higher paying job, and many others are waiting to take the low-wage job, the net job profile of the region has not changed.

Labor Market Regulation

As one reaction to the changes in the labor market and associated challenges described above, cities and states are passing new labor market regulations. For example, the minimum wage was raised to $15 an hour (to be phased in) in Seattle, San Francisco, and Los Angeles, and Chicago's minimum wage is set to increase in steps to $13 an hour by 2019. New York State is debating whether to significantly increase its minimum wage. Ten states have introduced fair scheduling legislation. The Retail Workers' Bill of Rights, passed in July 2014 by the City of San Francisco, includes provisions to make retail scheduling practices more predictable and improve the treatment of part-time workers.

All regulation creates unintended consequences, which make arriving at political decisions challenging. This difficulty is exemplified by the current debates on minimum wage. Perhaps the most cited study, last year's report from the Congressional Budget Office found that an increase in the Federal minimum wage to $10.10 / hour would increase wages for more than 15 million workers; increase real, net income for families living between one and three times the poverty threshold by $12 billion annually; and lift nearly 1 million people out of poverty. At the same time, roughly half a million workers would lose their jobs and all income.[26]

The reality of unintended consequences, which is inherent in any regulatory scheme, allows debate to continue, even if the overall benefits seem to outweigh the potential costs.

Better laws are likely required, but are not the entire solution. We need additional approaches to reverse the challenges brought on by the new economy labor market.

Win-win solutions

An additional approach to creating economic mobility is to rethink the equation for productivity – from a focus on cost to a focus on output – in a way that both improves employer success and produces more sustainable jobs.

Across industries, some successful companies adopt strategies that provide more stable jobs and opportunities for advancement than others. Some take the opposite approach. Financial and organizational success correlates more strongly with execution than strategy, raising the question of whether companies might rethink their strategies to benefit at the same time firm performance, the regional economy, and employee well-being.

In particular, where low-wage workers are in customer-facing roles, companies have begun to rethink the drivers of profitability, from a focus primarily on reducing cost to investments in front-line worker capabilities that improve productivity through greater or higher-quality output. We call these "win-win" strategies.

[26] *The Effects of a Minimum-Wage Increase on Employment and Family Income*, Congressional Budget Office publication No. 4856, February 2014

Background

Of the 1.5 million low-wage jobs in the Chicago region, we have identified 400 thousand in occupations where there are examples of “win-win” jobs. Nearly three-quarters of these jobs are in health-care support occupations or in retail occupations. (See Exhibit 6).

In healthcare, which employs about 90,000 low-wage workers in Chicago, organizations that successfully invest in employee output, or quality of output, can gain:

- Greater revenue through improved patient outcomes and better customer service;
- Lower cost due to reduced employee turnover and errors (which leads indirectly to greater quality of care and revenue).

The benefits in healthcare depend greatly on the setting (e.g., integrated health system vs. stand-alone clinics vs. home health provider). These differences are explored in greater detail in the next section, and examples are provided in the Appendices.

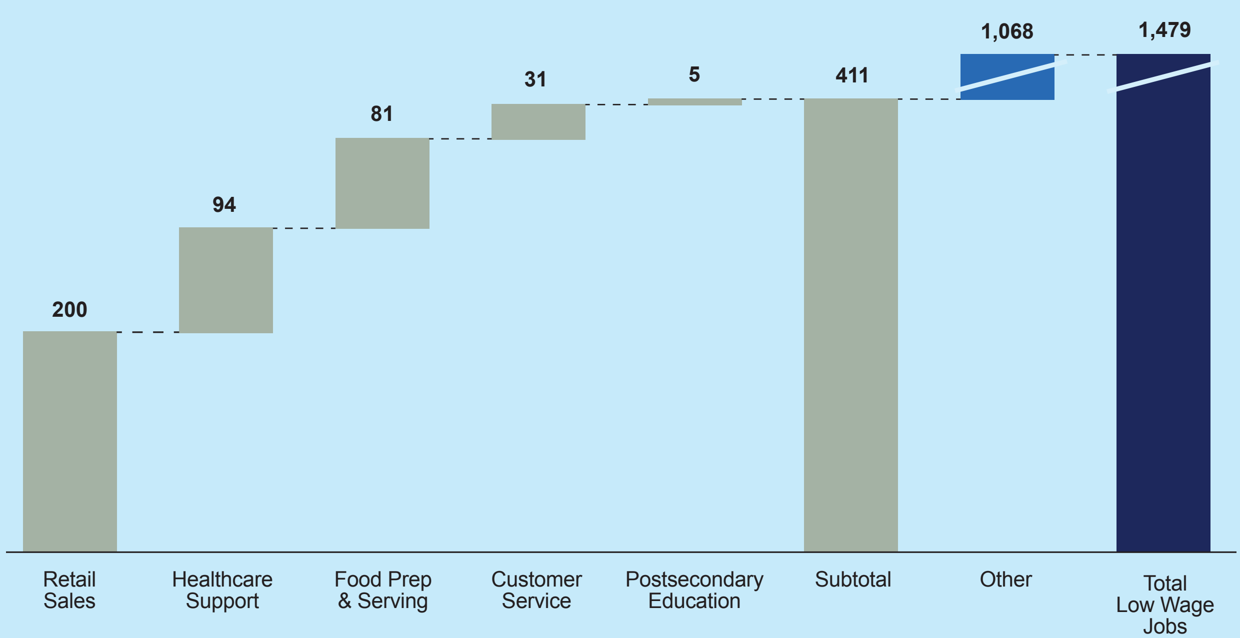
In retail, which employs nearly 200,000 low-wage workers in Chicago, companies that invest in employee output successfully can gain:

- Higher revenue growth and profit through improved customer experience;
- Lower costs due to reduced employee turnover, product shrink, and errors.

Of the two benefits, higher revenue growth and profit tend to be much more compelling in the retail sector than lower employee turnover costs. These drivers are explored in more detail in the following sections and examples are provided in the Appendices.

The following sections describe in greater detail the dynamics that are making win-win strategies in healthcare and retail increasingly attractive, and then propose several approaches the Chicago region might pursue, as it considers how to catalyze greater experimentation with these strategies, in the pursuit of greater productivity, opportunity, and regional growth.

EXHIBIT 6: **Potential Occupations for Win-Win Solutions**



Source: Bureau of Labor Statistics OES data; CCA analysis

Healthcare

While implementation of the Patient Protection and Affordable Care Act (ACA) has accelerated change, the healthcare sector has been undergoing significant transformation for decades. Among the most important long-term trends is the shift in reimbursement from fee-for-service to value-based purchasing models (VBPM). One result is that payers (private and public) are no longer assuming all the risk for treatment costs. Rather, providers are increasingly paid based on how well they manage the overall cost of care for their patients or are paid a fixed ("capitated") payment for each life covered, regardless of condition.

From 2013 to 2014, the percent of commercial healthcare payments flowing through VPBM increased from 11% to 40%.[27] Medicare has set a goal to increase the percentage of its payments based on performance to 50% by 2018, up from roughly 20% currently. As a result, hundreds of billions of dollars in public healthcare payments will be flowing through value-oriented models across the nation.[28] The impact will eventually be much greater, as the payer industry usually follows the lead set by Medicare.

This transition to VPBM means that treatment is moving from higher cost (acute) to lower cost (ambulatory and community health) settings, and that the focus of care is increasingly moving to primary and preventative. It also means that players in the healthcare sector are increasingly incentivized to experiment with new ways to improve health outcomes while reducing costs.

Because low-wage employees play a vital role in providing care, implementing win-win strategies can be a powerful tool to increase productivity in healthcare – resulting from simultaneous increases in output (and quality), along with reductions in operating costs.

From the perspective of output, front line employees in healthcare play a critical role in customer engagement and satisfaction, and evidence shows that employers who manage front line engagement well will prosper. In general, U.S. health systems with better patient experience scores tend to exhibit increased patient volume. Similarly, in hospitals, higher patient experience scores are correlated with higher profitability. [29]

From the perspective of cost, employee turnover has financial implications for healthcare employers. Our modeling suggests that reducing turnover for home health and personal care aides by 50% would result in yearly savings of $1,200 per head for a home health provider. Additionally, turnover increases the chance for errors and creates gaps in care, which reduce overall quality and can negatively impact reimbursement revenue. Thus, the two sides of the productivity equation – output and cost – can reinforce each other in healthcare. Put differently, because front line employees are integral to providing the basic service (or "product") in healthcare, win-win levers are potentially even more impactful in this than in other sectors.

To improve productivity, through both better quality of care and lower costs, providers in all settings make use of healthcare teams that include every person who comes into contact with a patient. Cutting edge providers ensure team members are practicing at the top of their license, redistributing low-value work from highly-paid, highly-skilled clinicians and nurses to less costly front line employees (See Appendix for examples).

In many settings, accountable care organizations and patient-centered medical homes are being designed to both improve care and reduce cost by minimizing treatment fragmentation, avoiding hospital readmissions, and encouraging smooth transitions of care from one setting to another.[30,31] For example, Group Health Medical Home in Washington State

[27] Deblanco, Suzanne. *The Payment Reform Landscape: Value-Oriented Payment Jumps, and yet…* Health Affairs, Sept 2014

[28] *Medicare to Rework Billions in Payments,* Wall Street Journal, Jan 2015

[29] Hall M., *Looking to improve financial results? Start by listening to patients*; Healthcare Financial Management Association, Oct.2008

[30] Longworth DL., *Accountable care organizations, the patient-centered medical home, and healthcare reform: what does it all mean?* Cleveland Clinic Journal of Medicine. 2011;78:571-582

[31] Department of Health and Human Services, *More Doctors, Hospitals Partner to Coordinate Care for People with Medicare*

took on a patient-centered care approach using medical assistants to act as patient engagement managers, doing outreach and follow-up to ensure consistent and high-quality care. The results were improved patient outcomes, reduced clinician burnout, and savings of $10 per patient per month. Arizona Connected Care started a Patient Care Advocate Program in which frontline care workers were redefined as patient navigators in a patient-centered care model. The result was an additional $200 in revenue per appointment, and the program is now paying for itself; at the same time, turnover dropped by almost half, from 9% to 5.2%.[32]

Opportunities to Explore Win-Win Solutions

Given the shift to VPBM, providers are striving for better outcomes and competing for patients to increase revenues, while working to reduce costs. The 90,000 low-wage healthcare workers in the Chicago region provide ample opportunity to experiment with innovative solutions that differ within each setting.

Residential and Home Health

Nursing assistants, home health aides, and personal care aides working in homes, residential care facilities, and social assistance settings make up more than 85% of low-wage healthcare workers. The number of low-wage workers and the impending shift to a value based model in 2016 provide a unique opportunity to do two things: first, to redesign the role of these aides so that the job itself is more stable for the employee; and second, to rethink the value generated by integrating the role of the aides with others in the care continuum, to provide better health outcomes for patients.

The Paraprofessional Healthcare Institute (PHI) has been leading efforts to create more sustainable roles in the Home Health sector. PHI has built a national consulting practice to help improve the lives of people who need home or residential care while also improving the lives of workers who provide that care. The strategies PHI works on include (a) integrating direct care workers with care teams; (b) sharing real time data with nurses; and (c) improving training and diagnostic skills. The agencies working with PHI are driving better patient outcomes by ensuring low-cost interventions are identified and treated sooner, and at home if possible, rather than through a more costly hospitalization. These changes require new training for all team members, including frontline workers, who reap the benefits of greater job stability and opportunity for upward mobility.

More broadly, as acute care providers take a population health management approach and assume more risk, they are increasingly focused on the cost of care associated with discharging a patient into a post-acute setting. The Residential and Home Health sectors are in a unique position to work closely with acute care providers to integrate their workers into acute care teams, generating value by identifying medical conditions earlier to keep patients out of emergency departments.

Integrated Health Systems

For integrated health systems, the opportunity for rethinking roles includes low-wage employees in hospitals, physician's offices, and outpatient clinics. All told, there are about 14,000 low-wage workers in these settings in the Chicago region.

The move toward ambulatory (outpatient) settings, and community-based preventative care provides several opportunities for better outcomes, improved reimbursement, and rethinking employee roles and career paths. In these systems hospitals must also ensure tight coordination with post-acute care providers (skilled nursing facilities, inpatient rehab

[32] *Redesigning the Care Team, The Critical Role of Frontline Workers and Models for Success*, Kevita Patel, Jeffrey Nadel, Malory West, Brookings, 2014

facility, etc.) so that problems that arise in transitioning patients from one setting to another do not lead to hospital readmissions.

For example, one academic medical center in Chicago is expanding its ambulatory network to provide primary care services to the communities it serves. By doing so, the centers will reduce the cost of providing care in the hospital's acute care setting, while improving patient outcomes and increasing revenue through its ambulatory network, which also serves as a source of future patient referrals. The success of this model will depend on developing care teams where all involved – from care coordinators to nursing assistants to nurses and physicians – work in integrated teams. As these roles are defined in the new ambulatory settings, opportunities arise to re-train current low-wage workers in the in patient settings for more team-based work in the outpatient clinics.

Safety Net Providers

For safety net providers, such as the Cook County Health and Hospital System, (CCHHS) the expansion of Medicaid through the ACA resulted in newly-insured patients having a choice in their healthcare provider. With more than 180,000 individuals receiving care through County Care, the managed care program for new Medicaid recipients, CCHHS, like other providers, must now compete for patients based on service, convenience, and outcomes; making the role of the frontline worker more important than ever. To provide better health outcomes in a cost-efficient manner, safety net providers are using accountable care organizations (ACOs) to create "patient-centered medical homes," designed to help coordinate and improve care, while at the same time reducing costs. For example, CCHHS is spending up to $70M with Medical Home Network ACO, a new company that coordinates treatment of newly enrolled Medicaid patients.

With so much experimentation around how frontline workers are utilized to improve care, retain customers, and reduce costs, safety net providers are an intriguing segment to deploy win-win strategies. However, implementation of win-win strategies might be affected by constraints in a unionized setting when redefining roles and pay structure.

Retail

Many prominent retailers – the Container Store, Trader Joe's, Costco, Aldi, and others – employ operating strategies where traditionally low-wage occupations have been re-thought to the mutual benefit of employers and employees.[33] Three significant examples are:

- Aldi pays its employees industry-leading wages, with entry-level positions in the Chicago area starting at $13.00 an hour, about $3 an hour more than the average starting wage for grocery employees in Chicago.
- Costco pays its employees an average of $20.89/hour and offers health insurance to 88% of its employees.
- QuikTrip, a national gas and convenience chain, pays its employees above average wages: entry-level employees, full-time and part-time alike, make close to $40,000 a year.

In each case, these wages and working conditions reflect an operational philosophy that makes these investments worthwhile. More detail on each case example can be found in the Appendix.

More generally, changes in the retail environment suggest that the opportunity to implement win-win strategies in the retail sector, home to nearly 200,000 low-wage jobs in the Chicago region, will continue to grow. For example, as portions of retail move on-line and delivery times drop, remaining brick-and-mortar retailers are left with high-quality customer services

[33] Zeynep Ton, author of *The Good Job Strategy*, calls these "human-centered operational strategies," *New York Times*, July 7 2014, Op Ed

as the main competitive advantage compared to the on-line channel. For retailers that choose to operate in multi-channel environments, increasing channel complexity requires more sophisticated sales people. And as products themselves become more complex, retailers must depend on their front-line sales people to attract and retain customers, while pointing shoppers to the most appropriate (and profitable) products.

In addition to operational challenges new channels and products create, many retailers are sensitive to their reputation as low-wage employers in the new economy, and are vulnerable to increasing regulatory responses to the growth in low-wage work.

Thus, in the retail sector of the new economy, successful firms will need to increasingly think about both cost and output in the drive to increase productivity. As the focus has been traditionally on the cost side of the productivity equation, the trends described above will force more retailers to think about the output side of the equation.

Indeed, as described below, our modeling suggests that it will be in pursuit of increased profitability through faster revenue growth that win-win strategies have the greatest leverage in the retail sector.

Revenue Growth Provides the Greatest Leverage for Win-Win Strategies in Retail

Revenue

Successful win-win retail strategies focus on driving additional revenue, and thus profit, by providing a better customer experience. Indeed, for some products (e.g., beauty) an enhanced customer experience is the only significant differentiating factor for in-store vs. online channels. Through investments in training, including in particular cross-training, greater compensation, increased employee selectivity, and enhanced career pathways for frontline staff, retailers employing win-win strategies improve the in-store experience. In turn, customers will frequent the store more often, buy more when they visit, and potentially adopt a more favorable mix of products. Combining these investments with other operational systems (and in some cases simplifying merchandising strategies) allows better-trained, motivated staff to help reduce stockouts, further adding to top-line growth.

While the economics of a retailer's business will no doubt vary by individual employer, our analysis (see Table 1) suggests that across a sample of retail sectors, a 10% increase in sales would allow a retailer to pay each salesperson or cashier $6,600-8,000 more per year. Similarly, reducing stockouts by 1/8th, say from 4% to 3.5% of sales, would allow a retailer to pay frontline employees another $330-400 per year. These two outcomes alone would allow such a retailer to pay frontline employees 35-40% more than they make today.

Costs

By improving employee training and incentives, retailers can also reduce costs from employee turnover, product shrinkage, and errors. Although the cost of a single employee turning over is relatively low for most retailers, the rate of turnover is high, roughly 60% per year for a typical retailer. By comparison, Costco and Trader Joe's, both known for investing in employees, have turnover rates of 5.5% and 10%, respectively.

Our analysis suggests that if a retailer could halve salesperson and cashier turnover, they could afford to pay those same workers an additional $300-600 per year, depending on the segment.

TABLE 1– Impact of Operational Changes on Annual Salary for Front-Line Workers

Sector	Turnover cut by 1/2	Shrinkage cut by 1/3	Stockouts cut by 1/8	Revenue up 10%	Labor Cost[1,2] down 10%
Grocery	607	1,263	345	6,896	3,079
Building Materials & Garden Equipment	607	1,703	360	7,196	2,944
Pharmacies & Drug Stores	303	2,143	344	6,886	2,944
Auto Parts & Accessories	405	789	331	6,627	2,854
Sporting Goods, Hobby, Books, & Music Stores	405	987	404	8,073	2,787

[1] Additional $ available based on reducing hours or headcount of retail salespeople and cashiers; [2] Excludes potential multiplier effect of spreading savings from other levers over a smaller base of employees. Impact of turnover, shrinkage, stockouts, and revenue growth would be ~11% greater assuming a 10% reduction in staff
Source: 2012 Economics Census: 2013 Annual Retail Trade Survey

Similarly, if the retailer could reduce shrinkage by one third, they could afford to pay front line workers an additional $800-2,100 per year.

As shown in the right column of the table, reducing labor costs by cutting pay or hours has a significant impact. However, it is interesting that other levers have nearly as much (or, in the case of revenue, greater) impact than reducing labor costs, which commands so much focus in the retail sector.

To be sure, there are many other factors that contribute to the financial performance of retailers that adopt win-win strategies. For example, we observe that successful win-win retailers often have:

- Different product mixes, including fewer SKUs and a greater share of higher-margin and private-label products
- Extensive training programs for supervisors and managers to improve management of frontline employees
- Sophisticated information systems
- A more affluent average customer base (although not always).

Nonetheless, Costco, Trader Joe's and other retailers demonstrate that it is possible to pay employees more and provide them with more economic stability without sacrificing financial performance. If a more affluent customer base is part of the strategy, then at least those retailers with wealthier customers might provide the first opportunities for experimenting with new approaches.

Challenges and Opportunities

Despite the potential benefits of the strategies discussed above, changing from one strategy to another is difficult: some leaders do not see different models as possible, in particular if the focus for years has been exclusively on the cost side of the productivity equation; the changes needed for large organizations to re-think their approach to customer service are significant and time consuming to implement; and capital markets do not always look at long-term potential, when short-term costs are incurred for evolving from one strategy to another.

Given these challenges, we believe the most likely opportunities will involve retailers that are:

- Growing
- Led by (or about to be led by) a visionary leader, who sees new possibilities in utilizing the front line workforce
- Private, and therefore less constrained by quarterly financial reporting
- Local, with a more natural stake in the Chicago community
- Experimenting with new formats or geographies
- Not constrained by union contracts

Further study and five potential pilots offer a possible path forward.

Opportunities to implement win-win solutions exist not only in the healthcare and retail sectors, as discussed above, but other sectors as well. In some cases, market forces will lead to these solutions. In other cases – in particular where government forces shape the marketplace – experimentation might be catalyzed by working jointly with public and private sector leaders.

Five potential pilots that might lead to greater experimentation in win-win solutions are described below. In addition to exploring these initial ideas, an ongoing conversation about the impact the new economy is having on economic mobility and regional growth seems needed. In particular, we need discussion across sectors to find solutions that benefit everyone - employers,employees, government, and the economy. Unfortunately, much of the conversation today is polarized, driving participants into long-held views and corners. Working together, to find solutions even better than those we've begun to outline here, will move us to a region that is a better place to live, and do business.

PILOT 1 Design and Implement A New Reimbursement Structure for Home Health Sector

GOALS

- Restructure the Medicaid formula for home health so those reducing overall system costs are compensated better and can improve pay of home health care workers
- Help providers of home health, in particular those funded primarily with Medicaid, revamp front line work so they provide better care, increase reimbursements, and can provide better jobs (more stability and pay) for front line care providers

PARTNERS

- State of Illinois
- Home health providers funded primarily by Medicaid
- Home health consultants

DESCRIPTION

Assess how the Medicaid reimbursement formula impacts health outcomes and system costs in home health across Illinois. The results of this ROI analysis would be used to design and implement a new funding approach that rewards providers for investing in front line worker capabilities, resulting in better health outcomes, lower costs, and greater pay.

PILOT 2 — Redesign the Role of Medical Assistants and Other Frontline Care Workers to Increase Productivity and Health Outcomes

GOALS

- Help providers revamp front line work so they provide better care, generate increased reimbursements, and can provide more stability and pay for front line care providers

PARTNERS

- Local and regional health systems
- Healthcare consultants with expertise in labor reengineering
- Philanthropy

DESCRIPTION

Work with local and regional health systems to understand how the Medical Assistant and other frontline care worker positions are used in ambulatory care settings. This effort would focus on driving to increased productivity in the role through the redistribution of work, the integration of frontline workers into care teams, and customer service training to improve patient care and, thus, reimbursements.

PILOT 3 — Provide Technical Assistance/Benchmarking for Small- and Medium-Sized Businesses

GOALS

- Improve the productivity of small- and medium-sized businesses through adoption of higher-skilled, higher-paid workers

PARTNERS

- Local and state government
- Management consulting firms
- Financial services firms
- Philanthropy

DESCRIPTION

This effort would offer benchmarking and technical assistance to small businesses through government economic development offices. Businesses would be offered support to examine their workforce practices and operations for gaps; those that seemed likely to benefit from more intensive analysis/support would be selected to receive reduced cost of pro bono consulting and financial assistance in implementing changes that would improve output and productivity. This effort could learn from new initiatives (e.g. “Best for New York City).

PILOT 4 Link Economic Aid to Public Benefit

GOALS

- Link availability and amounts of tax incentives to jobs that will require fewer public subsidies and maximize the growth potential of the region

PARTNERS

- State and local government
- Management consulting firms

DESCRIPTION

At a local, regional, and state level, corporations and businesses receive tax incentives to encourage job creation. Some states, including Georgia and Arizona, have linked those incentives to the quality of jobs created. As currently structured, our region's incentives tend to be based mainly of the number of jobs created. This effort would seek to establish a better ROI for public sector entities on the tax credits they give to corporations by linking the credits to net public benefit.

PILOT 5 Improve College Completion by Addressing the Challenges Facing Low-Wage College Faculty

GOALS

- Launch a pilot to demonstrate that:
  - Investing in high-quality faculty with adeqaute support and working conditions improves student outcomes (e.g. retention, completion)
  - The return to the college, in the form of incremental tuition revenue, exceeds the intial investment in faculty

PARTNERS

- Two-year public colleges in Illinois
- Four-year public colleges in Illinois that accept a substantial majority of applying students (i.e. less selective or open access institutions
- Philanthropy

DESCRIPTION

Completion rates at public two-year and less selective four-year higher education institutions are low: two-year completion rates are approximately one-third, while less selective four-year institutions have completion rates ranging from forty to sixty percent. A majority of this attrition happens early in students' careers: approximately 30-40% of students will drop out during the first year of college. This is the moment when the least academically prepared students will face the most poorly-paid, poorly-supported instructors; approximately 55-60% of these classes will be taught by part-time faculty who make a salary of less than $25,000 FTE. By addressing the wages, working conditions, and support, we believe that we can produce markedly better student retention in a way that will generate a positive financial return for the college.