Should Amazon pay people more?

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Abstract. As a well-known company engaged in e-commerce, Amazon has an important influence on Internet enterprises. Amazon's salary design has also received widespread attention. Amazon has designed some important mechanisms for employee companies to improve the enthusiasm of employees, but there are some problems in the implementation process. Therefore, it is necessary to further reform the existing wage system to provide guarantee for the development of enterprises. This paper argues that companies should make more flexible wage system to improve labor productivity. The implications of this study could provide some advice for the Amazon, thus laying a foundation for the development of the enterprise.

Keywords: Amazon; Salary design; Advice.

1. Introduction

Amazon is a multinational corporation that specializes in online shopping and e-commerce. At the end of 2021, the company will be No. 2 on the Fortune 500 list with 1,608,000 employees with a market value of $1.405 Trillion US dollars, which is still growing at a fast pace. A company this big shouldn’t be able to grow this fast, but Amazon’s 38% revenue growth in 2020 has the company creeping closer to the top of the Fortune 500. Specifically, e-commerce is a field where the government may wish to regulate oligopolies to keep it competitive, thus making amazon an unarguable oligopoly enterprise. The company headquarter is located in Seattle, the city with the highest minimum wage of 13.5 USD per hour. Following the minimum wage, the city also has one of the top market prices in the entire US. As a result, amazon gives its employees a minimum wage of 15 USD per hour throughout the US, enabling the lower earnings to afford to live in Seattle and other places.

2. Amazon's salary system

Every year Amazon raises individual employees’ base salaries following their annual performance and pay review. They have also enacted new policies that apply to all employees when they have expanded requirements to generate enthusiasm and public interest. From the perspective of the company's shareholders, raising the salary should be considered a good way to encourage the company's development. Moreover, the workforce is more competitive than ever, especially as the COVID-19 pandemic provides workers with greater leverage to demand higher benefits and pay. A growing number of companies are also offering flexible work arrangements, such as remote or hybrid employment. This has led Amazon and other tech companies to acknowledge that not offering certain benefits could hurt their ability to attract or retain talent.

Amazon announced a salary increase in February 2022, that it will increase the cap on the base salaries from $160,000 US dollars to $350,000 per year. When this policy first came out, it seems to be not attractive enough for the department leader and too far away from other workers as they cannot even reach the old salary cap. But in reality, almost all the employees receive a 10% to 30% salary increase because the salaries all the employees get are related to and largely affected by the cap. According to the Macrotrends, Amazon’s net income in the first season of 2022 meets a huge decrease from 33.36 billion US dollars by the end of 2021 to 21.41 billion US dollars. “Amazon on Thursday reported it had lost nearly $4 billion in the first three months of 2022” (Seattle Times), despite the actual market loss, all can know that the company actually spends a lot more on the salary of their employees. Under the background of a negative trend, the company still takes the risk to encourage the workers.

There are multiple benefits of this act. To begin with, this act can motivate the workers to achieve the best possible results. Additionally, since US inflation from 2021 to 2022 increased all prices, including Amazon, most companies are likely to increase the employees' salaries. They do not need to worry about employees' passive attitude caused by their low salary if they raise it as early as possible. Although Amazon's recent cash flows have even become negative due to shipping inflation and skyrocketing SG&A costs, they still have to take the risk to maintain talents during the hardest times. Public perception of Amazon's employee welfare can be enhanced by this policy, which will keep employees satisfied and the extra cost to a relatively reasonable level. Based on the above factors, the 2022 February Act was a good decision and received positive feedback. It turned out that a salary increase can make a company more competitive even in hard times.

In the next act, Amazon can change the target group to include all its employees, from top to bottom. For example, if an outstanding achievement is made by a higher-earning group, more stock may be allocated. If salary increases can provide such a big effect, should they do it in the most direct way by increasing everyone's salary by the same percent? The truth is that it is not a good idea to increase the income of a company by a fixed percentage. If the owner of amazon decides to do so, it can backfire on amazon since the senior employees are no longer recognized. This may also lower morale because the employees who are paid the minimum for their own reasons are now being rewarded like the best workers. Furthermore, this can lead to "pay compression" -- which is when new department members earn the same amount as the long-time employees. It will discourage the more dedicated and hardworking workers. The worst-case scenario might be to lose the oldest and the most trusted workers. About five years ago, "Gravity Payments" raised the minimum salary at the company to $70,000, which caused two of the "most valued employees quit because of that. Maisy McMaster, who joined the company for five years and worked her way up to financial manager, and Grant Moran, one of the company's best web developers, both feel like they were getting the same rewards and payment as everyone else. They regarded it as unfair to largely increase the pay of some new hires while the longest-serving staff members got smaller or similar raises."

When shifting the focus to Amazon, the current market situation in the whole world is undergoing enormous inflation with multiple resources in pressing demand. The U.S. massively over-issued money during the pandemic, causing price inflation and a flood of money. Thus, the companies that solved the consumer problem in the United States made a lot of money. Recently it could be seen that a substantial rebound in Amazon's stock price, stemming from a substantial increase in earnings, and Google is also growing substantially.

Amazon does not have enough free cash flow to cover a 20% increase in salary costs while still maintaining the normal business. In light of this single fact, the plan to boost wages by 20% should immediately be abandoned. When this occurs, on the one hand, Amazon might not have enough free cash flow to sign a new contract with a new customer or create new business following the trend; on the other hand, the company might miss the perfect opportunity to expand while similar organizations can catch up with Amazon by utilizing all the available opportunities. Amazon may even face a harder time maintaining the contrasts that already exist if the outcomes are negative. Under the background of a fast-growing resource price, companies have a great chance to experience a deficit to reach the requirements of a contrast. If their free flow pool cannot fulfill the loss, their only choice is to do the irreversible acts such as selling more stocks to get enough money. A higher amount of shares on the stock market means that a decrease in price per share will follow, which will lead to a decrease in the value of the whole company.

3. Conclusion

In conclusion, salary changes take up a big proportion of both the company's costs and the employees' work ethics. The company should always consider the plan based on the current and future market conditions as they change. It is inappropriate to fix salary increases and companies cannot decide on a fixed rate for raising salaries. Only by following this, can the company follow the market, adjust employees' efficiency and expand its business.

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