

**Testimony to the Committee on Small Business Subcommittee on Oversight, Investigations,  
and Regulations**

**John Puckett Co CEO and Co Owner Punch Neapolitan Pizza February 24, 2021**

Thank you Chairman Phillips for inviting me to testify today about our company's experience with paying higher than industry average and governmental minimum wages.

I am honored to share the Punch Pizza story. Punch has historically not taken specific policy positions but shared our story for others to learn from.

My name is John Puckett and I'm the co-owner of Punch Neapolitan Pizza. We are a 25 year old restaurant company that owns and operates a dozen quick service Neapolitan pizzerias in Minneapolis and St. Paul. Prior to growing Punch, my wife and I founded Caribou Coffee which is now one of the largest coffee chains in the United States with over 500 stores.

Punch's service model is termed "quick casual", like Chipotle, Noodles and other more national brands. Our style of pizza uses 900 degree wood burning ovens and traditional Neapolitan ingredients such as artisanal dough, fresh mozzarella and simple whole ingredients. We have been recognized over the years as having one of the best pizzas in the country and we attribute that success to our basic business philosophy of constant improvement. We currently use the Baldrige quality process to help our company improve and are committed to become only the third restaurant company to win the National Baldrige Quality Award.

A key part of our company's success has been our fantastic employees. When we ask customers why they return to Punch the top two answers, closely ranked, are the quality of our pizza and our engaged, friendly employees. One of our key business strategies has been to recruit and hire the best employees. Central to that strategy has been paying more than our competitors (and well above legal minimums) to ensure we attract and retain the best people. Punch was recognized by President Obama in the 2014 SOTU address for our pay well above minimum wage. Today, Punch's starting wage averages \$13/hour with a range of \$11/hour for cashiers and \$14.50 for cooks. Our average hourly wage for all employees is \$15/hour (excluding salaried managers). Each employee also receives on average an additional \$5 per hour in tips bringing total average compensation of our hourly employees to \$20/hour.

In addition to offering a higher starting wage, we emphasize training and encourage attractive advancement opportunities to all of our employees. We offer training for seven incremental skill and pay levels increasing hourly pay to over \$17/hour. Punch also internally promotes its managers from our hourly workforce with more than 75% of our salaried manager positions coming from former hourly employees. On average an employee at Punch can move into management within three years of employment and earn more than \$50,000 per year. Our most senior store managers at Punch make over \$100,000 a year; this position requires no accreditation, credentials or minimum education levels. Our training systems teach interested employees the skills necessary to be effective managers and leaders.

Punch's employee retention is about two and half times longer than industry average. While offering higher pay is part of our better retention we believe other equally important factors are the strong culture of our company, the quality of leadership in the stores, the pride in making great pizza and having the proper tools and processes to get the job done. Studies about turnover in our industry, which our experience confirms, have long shown that pay alone isn't enough to retain great employees. You need leadership, sense of purpose, effective management and advancement opportunities.

Our people strategy does come at a cost. Our store level labor cost (as a percentage of sales) is about 35% which is significantly higher than industry average. Including the compensation of our office and support staff, Punch total compensation is more than 40% of company sales. In general, Punch earns less profit than other successful companies in our industry. But since our business strategy is not to maximize short term profit but to build a company that will last generations, we think the extra money we spend on labor is money well spent.

To close, I'd like to discuss two challenges Punch and other restaurants face today: the pandemic and inflation.

The pandemic has caused our company to lose money for the first time in our 25 year history. While we have kept our employees safe with zero workplace infections, the reduced sales from closing our dining rooms has come at a cost. Our company has lost approximately \$1 million in 2020 and we continue to lose about \$50,000 a month. Without the disaster aid provided by the federal government (PPP loans and SBA EIDL) I don't think Punch or most other independent small restaurant companies could have survived. We are hopeful once vaccinations are more widely available that our business and our industry will get back some sort of normalcy.

The other challenge facing our industry is inflation of the two largest cost components: labor, and ingredients (COGS). We mentioned that labor at our company consumes 40 cents of every dollar in sales. The restaurant business is much more labor intensive than other retail businesses. As a comparison, the average restaurant business generates about \$65,000 in sales for every employee (National Restaurant Association). Target and Amazon, who both have been in the news recently with their increase in starting wages to \$15/hour, generate approximately \$250,000 and \$500,000 per employee respectively or 400-800% more (Company filings). This makes the impact of labor cost much greater for the restaurant industry than any other major industry we are aware of. We are also seeing an increase in prices for our food ingredients. Commodity increases along with new safety process costs are being passed along to restaurants. The current business environment has never been more challenging, especially for small business.

On behalf of everyone at Punch, thank you all for your interest in hearing from small businesses. We really appreciate the lifeline you gave us and 1,000's of small business like us with the covid related disaster aid.

