

## Froth, Downward Wages, and the Importance of Repeat Business

By [Harrison Barnes](#)

When I started in the asphalt business, the people I was competing against were charging exorbitant rates for their work. As an example, they might charge \$600 to seal coat an average-size driveway. The job would require about two hours' worth of work and \$50 or so in materials. As a young asphalt seal coater, I too decided that I was entitled to make this much money from my work, and I initially went into business with this attitude.

One of the first asphalt jobs I did was at a house next to my grandmother's home. I had done my grandmother's driveway for free. As I was doing the work, her neighbor came over and told me that I could also do her driveway if I wanted. We did not discuss price. I believe I charged her \$400 to do the work, which, given the size of the driveway and other factors, was a fair price. I could tell, however, when the woman paid me, that she thought I had charged her too much. My grandmother also thought that I had charged too much, and through a series of analogies (my grandmother never would criticize someone to their face), she let me know that she firmly believed I had seriously overcharged her neighbor, and that it was not all right.

I realized that every single time I charged someone "market rate" for a job, I never felt very good about myself. There were plenty of men out there I was competing against who would charge as much as they could for the asphalt work they did. But I never felt good about charging these so-called market rates because (1) I thought that it was too much money to charge, and (2) I wanted people to want to use my service again and again each year. You can charge market rate all you want, but if this is your presiding attitude and focus regarding the product or service you are offering, you may find yourself easily undercut on price.

By my second or third year in the asphalt business, I realized I would have even done a \$400 driveway for \$125. I was just grateful for the work and happy that people hired me. I did not make as much money per job as the more experienced people in the field, but it was more important for me just to have the work. My philosophy spoke for itself: In the short space of a few years I am pretty confident I was doing more residential asphalt sealing in suburban Detroit than anyone else. I started putting my competitors out of business by charging a fair price and doing better work. My business grew and I felt that I was accomplishing something of significance.

When my competitors would show up to bid on the same houses as I did, they would always ask for as much as three to four times what I was charging for the same work. The homeowners told me they would ask them why they should pay so much more. The competitors would say something about "experience" and "how long they had been in business," and they would criticize me because I was younger than they were. Luckily for me, this was never enough to convince people and I always got the contracts.

One major lesson that the asphalt business taught me was that having people choose to hire you again and again is the most important thing. You want to be the one who is hired. You want people to choose you--even if it means lower pay per job. In the asphalt business, people did choose my company time and time again, and as a result I was able to grow a great business while my competitors closed up shop.

This little lesson from the asphalt business is something that has served me well in my current career, and it applies to just about any business: *The most important thing you can have is repeat customers.*

You want to give people a good value. You want the people you are working for to be happy with your work and use you over and over again. Whether you are an independent contractor or a regular staff employee, in your job, nothing is more important than having an employer who is satisfied with your work.

In today's *New York Times* there was a story about a study that followed many people since mass layoffs began in 2000. The interesting thing about this story is that the people who ended up [finding new jobs](#) typically ended up with jobs that paid far less than their previous ones. In addition, when these people entered new companies they often got laid off again.

Before I go any further, I want to note something that is subtle, but a fact. When a company lays people off, it does not lay off the entire company. It keeps some people around. The people it keeps around are generally the people it believes are providing the most value, who are the most loyal and who work the hardest. These employees are at least somewhat protected in times of layoffs. In a sense, the company is really a "repeat customer" of the worker, and the company wants to continue using the employee's service. By thinking about your employer in this way, you can perhaps manage your own performance such that an employer will keep you around, even during the lean times.

Employees who have a lot of experience with a given company and who stay around for a long period of time are in far more demand by the market than those who move around. Sticking around for a long time at a company shows that the company considers you valuable and wants to use your services over and over again.

The *New York Times* story affected me because I have seen this sort of thing happen many times: If an attorney goes to a good law school, for example, he or she may get a job directly out of law school paying as much as \$150,000 a year. However, if the attorney leaves or is fired from this law firm and jumps around a bit, ten years later he or she will be grateful for a job that pays \$120,000 a year. In fact, many of these same attorneys will be grateful to be employed at all, with such a scattered track record.

*"I have ten years of experience. The law firm can pay me as a first-year attorney and will get a really good deal!"*

This is something that I have heard attorneys say to me countless times. The older attorney who bounces around from job to job just wants the privilege to be able to go back and *recapture* what he should have held on to in the beginning. See, this person may have had employment at some firm earlier in his career but decided that, for whatever reason, it was not good enough; now he wants to go back to where he was before. The problem is that it is generally not possible in the legal profession to go back like this. If you are not currently being paid a lot of money by a big law firm, the market figures you are

not good enough to receive higher pay--even if you used to earn more way back when.

A good portion of the attorneys who start out highly paid in [major law firms](#) never make as much money again. In fact, they often end up playing catchup, hoping to attain the salaries they earned in the beginning of their careers. These attorneys often start out with jobs at major law firms who are doing work for major companies where there is a lot of "froth"--that is, extra money to go around. These companies can afford to pay the law firms lots of money for the work, and the firms, in turn, pay their associates lots of money.

The same thing happens with many people who lose their jobs. You may have an excellent and high-paying job inside of a major corporation or other business, and suddenly you may find yourself without a job. Then, when you do find another job, you often end up at a company where there is less *froth*. In the face of less froth, you are not going to be able to earn as much.

When things were good in the system several years ago, companies and others were not watching their money as carefully and there was more froth. Lavish spending was the norm and the money that was coming into the system was creating a rising tide in real estate and other sectors, which was creating froth all around.

Nowadays, the stories in the paper each day about layoffs, hiring freezes, and no wage increases in the market are all pointing to downward pressure and deflation. This will affect how you get a job for some time to come. There is no longer a lot of froth in the system, and because this froth has gone away, employers and companies are being extremely careful with how they spend their money and allocate their assets. This is making "market rates" go right out the window. Companies can hire people to do things more cheaply, and this will save money. There is just not as much money going around as there used to be.

One of my greatest interests is running companies--and doing so successfully. Whenever I have interviewed key people, something that has always gotten my attention is the fact that people come in with wildly different salary requirements. For example, one person who has five years of experience may come into a job demanding to make \$150,000 a year. Another person with a better attitude and more experience may come in requesting a salary of \$50,000 a year for doing the same work. In the employment market I have found that you do not always get what you pay for. The person making \$50,000 a year may actually do a much better job than the person making \$150,000 a year.

You need to look at your employment situation from the perspective of the employer. Whom would you hire assuming all else was equal: someone requesting \$150,000 or someone requesting \$50,000?

In the current economy, this is exactly the sort of question that employers are asking themselves when they wade through countless applications. They are also asking whether they need someone at all.

It is important that in every job you have, you do the best work you possibly can. You want to be someone who is sought out for his or her work and expertise. You also should try to find employment wherever there is a lot of *froth*, because this represents an opportunity for you to earn more money.

But most important, you need to understand that *froth* moves in cycles, and in many economies, like the present one, it is more important to continue working than to hold out for market conditions and salaries that may no longer be reasonable to expect.

### **THE LESSON**

When you give your employer a good value, they will be motivated to keep you even in the lean times. Nothing is more important to your career than making sure your employer is satisfied with your work, which will make them likely to use you over and over again. Working for companies where there is a lot of froth will present you with more money-making opportunities; understand that froth moves in cycles, however, and it is more important to have consistent work than to hold out for ideal market conditions.

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