

Is Caffè Nero acting pennywise?



- 1 **T**HOUSANDS of Caffè Nero's UK staff have been learning one of the oldest lessons in economics this week as their pay packets rose but their complimentary £4 paninis went up in smoke: 5.
- 2 The idea that good things — a pay rise to £7.20 an hour as a result of the National Living Wage — have to be paid for from elsewhere isn't new but the experience of the coffee chain's 4,500 UK staff and the performance of the business over the next year or so is likely to prove fertile ground for behavioural economists, particularly if employees are less motivated as a consequence.
- 3 I should point out that this isn't a complete bonfire of the perks for beleaguered baristas. They still get a 65% discount on a wider range of foodstuffs, as well as free teas and coffees while they deliver the nation's caffeine fix. The company admits there was some internal opposition but says the vast majority of staff were in favour of the changes.
- 4 My extremely unscientific survey in the local branch found opinion split. One barista said he'd prefer the money while another said "why not have both?". His point was that the rise in the minimum wage is a legal requirement so why should he lose his perk?
- 5 Putting aside the company's understandable counter-argument about higher costs, that employee raises an interesting point: he didn't sound too happy, and unhappy people tend to be less productive. That at least was the finding of academics at the University of Warwick a couple of years ago. They conducted a range of experiments setting volunteers the same task under different conditions. Some were shown comedy clips before being set the task; others were given fruit and chocolates (the academic paper meticulously lists Cadbury's Heroes and Celebrations); the rest got nothing.

- 6 The experiments found that the 'treated' individuals were 12% more productive in the completion of the task, with the chocolates in particular delivering a 20% boost to performance. The volunteers were also questioned over recent life events, and those who had suffered a recent emotional tragedy were 'noticeably' less productive.
- 7 So should worried employers shell out for chocolates all round? Not so fast: the study pointed out that the cost of the chocolates was an average \$1.40 a head, but it could not make definite claims that the observed boost in productivity was big enough for the extra happiness to be seen as paying for itself. The Warwick academics added: "It is not possible here to be sure how long such productivity boosts would persist in a real-world setting."
- 8 That was certainly found by a pair of University of Chicago researchers who asked two unwitting groups to carry out door-to-door fundraising. One group was paid \$10 an hour; the other – the 'gift' group – was at first told it would be paid \$10 a hour, and then told just before the task began that the pay would be \$20 an hour. The higher wage group put in greater effort early in the task but "this higher effort level was not persistent: after a few hours, effort levels in the gift treatment mirrored those in the non-gift treatment".
- 9 The potential issue for companies like Caffè Nero is in the human instinct for loss aversion at the heart of behavioural economics: essentially feeling losses more than recognising gains.
- 10 At first glance a big wage rise is a good thing for lower-paid workers, setting aside the job losses and cost-cutting that might result. But it swiftly becomes treated as an entitlement in our minds, which are more predisposed to dwell on (for example) lost paninis. And if workers think they are no longer being treated 'fairly', for instance not getting both the panini and the higher wages, they might take their foot off the pedal. That was argued by economist George Akerlof and his wife Janet Yellen, now US Federal Reserve chairman, in their 'fair wage-effort hypothesis', under which workers proportionately withdraw effort as their actual wage falls short of their fair wage.
- 11 Divining the actual impact of Caffè Nero's move from other powerful forces on the business such as the price of coffee beans, competitors and the wider economy will admittedly be difficult, if not impossible. But even if the majority of staff say they're happy with the changes, I can't help but think they're taking a slight risk. We'll know in a year or so if staff get their free sandwiches back.

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