

BUSINESS DAY

# A Company Copes With Backlash Against the Raise That Roared

By **PATRICIA COHEN** JULY 31, 2015

There are times when Dan Price feels as if he stumbled into the middle of the street with a flag and found himself at the head of a parade.

Three months ago, Mr. Price, 31, announced he was setting a new minimum salary of \$70,000 at his Seattle credit card processing firm, Gravity Payments, and slashing his own million-dollar pay package to do it. He wasn't thinking about the current political clamor over low wages or the growing gap between rich and poor, he said. He was just thinking of the 120 people who worked for him and, let's be honest, a bit of free publicity. The idea struck him when a friend shared her worries about paying both her rent and student loans on a \$40,000 salary. He realized a lot of his own employees earned that or less.

Yet almost overnight, a decision by one small-business man in the northwestern corner of the country became a swashbuckling blow against income inequality.

The move drew attention from around the world — including from some outspoken skeptics and conservatives like Rush Limbaugh, who smelled a socialist agenda — but most were enthusiastic. Talk show hosts lined up to interview Mr. Price. Job seekers by the thousands sent in résumés. He was called a “thought leader.” Harvard business professors flew out to conduct a case study. Third graders wrote him thank-you notes. Single women wanted to date him.

What few outsiders realized, however, was how much turmoil all the hoopla was causing at the company itself. To begin with, Gravity was simply unprepared for the onslaught of emails, Facebook posts and phone calls. The attention was thrilling, but it was also exhausting and distracting. And with so many eyes focused on the firm, some hoping to witness failure, the pressure has been intense.

More troubling, a few customers, dismayed by what they viewed as a political statement, withdrew their business. Others, anticipating a fee increase — despite repeated assurances to the contrary — also left. While dozens of new clients, inspired by Mr. Price’s announcement, were signing up, those accounts will not start paying off for at least another year. To handle the flood, he has already had to hire a dozen additional employees — now at a significantly higher cost — and is struggling to figure out whether more are needed without knowing for certain how long the bonanza will last.

Two of Mr. Price’s most valued employees quit, spurred in part by their view that it was unfair to double the pay of some new hires while the longest-serving staff members got small or no raises. Some friends and associates in Seattle’s close-knit entrepreneurial network were also piqued that Mr. Price’s action made them look stingy in front of their own employees.

Then potentially the worst blow of all: Less than two weeks after the announcement, Mr. Price’s older brother and Gravity co-founder, Lucas Price, citing longstanding differences, filed a lawsuit that potentially

threatened the company's very existence. With legal bills quickly mounting and most of his own paycheck and last year's \$2.2 million in profits plowed into the salary increases, Dan Price said, "We don't have a margin of error to pay those legal fees."

As Mr. Price spoke in the Gravity conference room, he could see a handful of employees setting up beach chairs in the parking lot for an impromptu meeting. The office is in Ballard, a fast-gentrifying neighborhood of Seattle that reflects the wealth gap that Mr. Price says he wants to address. Downstairs is a yoga studio, and across the street is a coffee bar where customers can sip velvet soy lattes on Adirondack-style chairs. But around the corner, beneath the elevated roadway, a homeless woman silently appeals to drivers stopped at the red light with a cardboard sign: "Plz Help."

In his own way, Mr. Price is trying to respond to that request.

"Income inequality has been racing in the wrong direction," he said. "I want to fight for the idea that if someone is intelligent, hard-working and does a good job, then they are entitled to live a middle-class lifestyle."

The reaction to his salary pledge has led him to think that if his business continues to prosper, his actions could have far-reaching consequences. "The cause has expanded," he said. "Whether I like it or not, the stakes are higher."

On a recent weekday evening, Mr. Price confidently threaded his way through clumps of tourists and past the rows of flowers and fruits that line Pike Place Market in downtown Seattle. About 70 percent of the businesses that occupy this nearly century-old marketplace use Gravity to process their credit card payments, Mr. Price said. He started courting customers there more than 11 years ago, while still attending Seattle

Pacific University, a small Christian college. He would go from stall to stall, shaking hands, scribbling down phone numbers. Early on, he signed up Pure Food Fish. The shop was a backdrop in the film “Sleepless in Seattle,” but more important, it was run by the 86-year-old Solly Amon, who inherited the pocket store from his father and is lovingly known as the “cod father.” When other merchants heard Mr. Amon trusted Dan, they did too.

“They give us tremendous service,” Mr. Amon said. He remembered an incident years ago when Mr. Price had a new credit card machine up and running within three hours after his old one died.

In addition to providing the devices and software that merchants use when a customer whips out a credit card, Gravity makes sure the money shifts securely and quickly among buyer, bank and business. In an industry dominated by global banking giants and mammoth processors, the company last year processed \$6.5 billion in sales for 12,000 clients, most of them small and medium-size businesses.

Was Mr. Amon bothered by Mr. Price’s new payroll policy? “He takes care of his business, and I’ll take care of my business,” he declared.

Brian Canlis, a co-owner of his family-named restaurant, is also a client. He said he was fond of Mr. Price, but was more discomfited by his actions. Mr. Canlis is already worried about how to deal with Seattle’s new minimum wage, which rose to \$11 an hour in April and is scheduled to reach \$15 an hour for small businesses within five years.

The pay raise at Gravity, Mr. Canlis told Mr. Price, “makes it harder for the rest of us.”

Mr. Price winced. “It pains me to hear Brian Canlis say that,” he said later. “The last thing I would ever

want to do is make a client feel uncomfortable.”

But any plan that has the potential, as Mr. Price has put it, to “set the world on fire,” is bound to make some people squirm. Leah Brajcich, who oversees sales at Gravity, fielded complaints from several customers who accused her boss of communist or socialist sympathies that would drive up their own employees’ wages and others who felt it was a public relations stunt. A few were worried that fees would rise or service would fall off. “What’s their incentive to hustle if you pay them so much?” Ms. Brajcich said they asked. Putting in 80-hour weeks after the announcement, she called the mistrustful clients, stopping by their offices or stores, and invited them to visit Gravity to see for themselves the employees’ dedication. She said she eventually lured most back.

As for other business leaders in Mr. Price’s social circle, they were split on whether he was a brilliant strategist or simply nuts. As much as they respected him, they were also disturbed. “I worry how that’s going to impact other businesses,” said Steve Duffield, the chief executive of the DACO Corporation, who met Mr. Price through the **Entrepreneurs’ Organization** in Seattle. “We can’t afford to do that. For most businesses, employees are the biggest expense and they need to manage those costs in order to survive.”

Roger Reynolds, a co-owner of a wealth management company, said his discussion of the pay plan with Mr. Price got heated. “My wife and I got so frustrated with him at a cocktail party, we literally left,” said Mr. Reynolds, who complained that Mr. Price unfairly accused him of measuring his self-worth solely in terms of money and trying to hold somebody else down. Everyone may have equal rights, but not equal talent or motivation, Mr. Reynolds said. “I think he’s trying to bring in some political and aspirational beliefs into the compensation structure of the workplace.”

If there was a 19th-century thinker Mr. Price drew inspiration from, it would be not Karl Marx, but

Russell Conwell, the Baptist minister and Temple University founder, whose famed “Acres of Diamonds” speech fused Christianity and capitalism. “To make money honestly is to preach the Gospel,” Mr. Conwell exhorted his listeners. To get rich “is our Christian and godly duty.”

Growing up in rural southwestern Idaho, Mr. Price frequently listened to a recording of the speech on tape.

Every day he and his four brothers and one sister rose as early as 5 a.m. to recite a proverb, a psalm, a Gospel chapter and an excerpt from the Old and New Testaments. Home-schooled until he was 12 and taught to accept the Bible as the literal truth, Mr. Price also listened to the Rush Limbaugh show for three hours a day — never imagining he would one day be the subject of a rant by the host. Then it was time to help his mother with organic gardening, composting and recycling.

Like his siblings, Dan was fiercely competitive, said his father, Ron Price, and hard on himself if he didn’t come in first at Bible memorization contests, backyard football or board games like Life and Monopoly. “Dan has always been a deal maker,” said his father, who is now a management consultant.

The isolation did not prepare Mr. Price for the complex social interactions of junior high school. He was awkward, out of place. He remembered joining in when a group of children started laughing, only to later realize that he had been the target of their ridicule.

His experiences did reinforce an independent, contrarian streak even as he made a place for himself in the teenagers’ terrain. He formed a rock band and got a girlfriend. After their first hug at 17, her conservative Christian father demanded to know his intentions. The two were engaged, and they married four years later. (They divorced amicably in 2011.)

His parents instilled a sense of purpose. “We had a family mission” to glorify God, he said. The household was run as a “family business” with jobs and responsibilities carefully set out in charts and diagrams. “All my siblings hated it, but I thought it was cool,” Mr. Price said with a laugh.

Mr. Price is no longer so religious, but the values and faith he grew up on are “in my DNA,” he said. “It’s just something that’s part of me.”

He transferred that zeal to his credit card processing business, which he started out of his dorm room in 2004 with his brother Lucas, five years his senior.

He preached Main Street capitalism that promised to deliver good value, low prices and individual service. His success won him a shelf full of local business awards and even a chance to meet President Obama during National Small Business Week when he was just 25. Though he now has the shoulder-length hair and beard of a hipster, back then he looked like a baby-faced Donny Osmond and sounded like Alex P. Keaton, the eager beaver Republican played by Michael J. Fox on the 1980s sitcom “Family Ties.” He did not actively oppose Seattle’s minimum-wage increase, but a reason he urges other business owners to follow his lead on pay is to avoid more government regulation.

Mr. Price’s drive to succeed, fierce commitment to help small businesses and exacting standards attracted other business-minded idealists. Some even took pay cuts to work at Gravity. Keeping an existing client is more important than getting a new one, he decreed. Never make a caller hear more than two rings before picking up.

Nydelis Ortiz, 25, a former Peace Corps volunteer in Peru (not to mention the 2010 Miss Vermont), said she was drawn to his passion and community volunteer projects. Emery Wager, 30, a Stanford engineering

graduate and a former Marine, decided to forgo applying to Harvard Business School so he could work closely with Mr. Price. (He felt vindicated when a Harvard friend who had ridiculed his decision told him Gravity's pay scale was discussed in class.)

Maisey McMaster was also one of the believers. Now 26, she joined the company five years ago and worked her way up to financial manager, putting in long hours that left little time for her husband and extended family. "There's a special culture," where people "work hard and play hard," she said. "I love everyone there."

She helped calculate whether the firm could afford to gradually raise everyone's salary to \$70,000 over a three-year period, and was initially swept up in the excitement. But the more she thought about it, the more the details gnawed at her.

"He gave raises to people who have the least skills and are the least equipped to do the job, and the ones who were taking on the most didn't get much of a bump," she said. To her, a fairer proposal would have been to give smaller increases with the opportunity to earn a future raise with more experience.

A couple of days after the announcement, she decided to talk to Mr. Price.

"He treated me as if I was being selfish and only thinking about myself," she said. "That really hurt me. I was talking about not only me, but about everyone in my position."

Already approaching burnout from the relentless pace, she decided to quit.

The new pay scale also helped push Grant Moran, 29, Gravity's web developer, to leave. "I had a lot of mixed emotions," he said. His own salary was bumped up to \$50,000 from \$41,000 (the first stage of the



raise), but the policy was nevertheless disconcerting. “Now the people who were just clocking in and out were making the same as me,” he complained. “It shackles high performers to less motivated team members.”

Mr. Moran also fretted that the extra money could over time become too enticing to give up, keeping him from his primary goal of further developing his web skills and moving to a digital company.

And the attention was vexing. “I was kind of uncomfortable and didn’t like having my wage advertised so publicly and so blatantly,” he said, echoing a sentiment of several Gravity staff members. “It changed perspectives and expectations of you, whether it’s the amount you tip on a cup of coffee that day or family and friends now calling you for a loan.”

Several employees who stayed, while exhilarated by the raises, say they now feel a lot of pressure. “Am I doing my job well enough to deserve this?” said Stephanie Brooks, 23, who joined Gravity as an administrative assistant two months before the wage increase. “I didn’t earn it.”

When Mr. Price chose \$70,000 as the eventual salary floor, he was influenced by research showing that this annual income could make an enormous difference in someone’s emotional well-being by easing nagging financial stress.

He might have also considered the parable of the workers in the vineyard from the Gospel of St. Matthew, where the laborers hired at sunup were upset that their pay was the same as those who showed up right before quitting time. Early adopters and latecomers may be equally welcomed in the Kingdom of Heaven, but not necessarily in the earthly realm, where rewards are generally bestowed in paycheck form.

As for the raw feelings of friends or staff members, Mr. Price readily admits that he can be contentious,

even censorious. A disagreement often comes across as a personal attack. “It’s just as painful for me as anyone else,” he said.

Mr. Price, who extolled Ms. McMaster’s talents, said he didn’t think she, Mr. Moran or even Rush Limbaugh was wrong. “There’s no perfect way to do this and no way to handle complex workplace issues that doesn’t have any downsides or trade-offs,” he said. When other entrepreneurs suggested that stock options or profit-sharing would have been a better approach, he said that’s the way capitalism works: Everyone tries to invent the best mousetrap. “I came up with the best solution I could.”

And the publicity surrounding it has generated tangible benefits. Three months before the announcement, the firm had been adding 200 clients a month. In June, 350 signed up.

That new business won’t start paying off for 12 to 18 months, however, Mr. Price said, and in the meantime, he is contending with the lawsuit brought by his brother. Lucas Price owns about 30 percent of their company, although he has not actively been involved in day-to-day operations for several years. There had been tensions between the two long before the new pay plan, and Lucas is demanding that Dan buy him out for an unspecified amount, plus damages.

Lucas, who lives in Seattle, declined to be interviewed but wrote in an email: “Dan has taken millions of dollars out of the company for himself while denying me the benefits of the ownership of my shares, and otherwise favoring his own interests as the majority shareholder over my interests.” He said his complaints predated the pay raises.

Even so, they clearly are critical to the outcome. With profits, at least in the short term, shifted to salaries, there is little left over to buy out his brother, let alone pay the legal bills or make longer-term capital

improvements in the company, Dan said.

Flabbergasted when the suit arrived, Dan said he was puzzled by the accusations, saying that Lucas agreed to his \$1.1 million salary and bonus package, instituted for 2012.

Family fighting over a business can be ugly and is often about more than just money. Dan conceded he may have previously given short shrift to Lucas's contributions. "Who knows if I would have had the opportunity to build the company without him helping me out in the first couple of years?" he said.

Lucas was the best man at his wedding, and the two, close friends, often hiked, surfed and attended ballgames together. By the end, "being in business together was the worst thing for our relationship," Dan said. After the lawsuit was filed, he said he called the rest of his family and told them to offer "unconditional love and support" to both Lucas and him. (Their younger brother Alex, 23, also works at the company.)

While it is upsetting to see two of his sons at odds, Ron Price said, "their mother and me don't lose sleep over it. I think they'll get it sorted out."

Dan Price, who estimated his current net worth, including his home, at about \$3 million, said he had offered to "give up everything I have personally and everything I'll have for years to come." A court date has been set for May.

For now, at least, Mr. Price has undoubtedly made an immediate difference in the lives of many of his employees. José Garcia, 30, who supervises an equipment team, was able to afford to move into the city and replace the worn tires on his car. Ms. Ortiz, who was briefly homeless as a child, can now visit her family in Burlington, Vt. Cody Boorman, 22, who handles operations out of his eastern Washington home, said he and

his wife finally felt financially secure enough to start a family.

There have been other ripples. Mario Zahariev, who runs Pop's Pizza & Pasta, switched to Gravity after seeing Mr. Price on the news. When he learned his monthly processing fees would drop to \$900 from \$1,700, Mr. Zahariev decided, "I was not going to keep the difference for myself." He used the savings to raise the salaries of his eight employees.

Pop's Pizza aside, Mr. Price's plan is not easily replicated, said Nick Hanauer, a Seattle venture capitalist and an early promoter of the city's \$15 minimum wage law. Still, he noted, "These individual acts can create a new kind of perception of what's possible and what's righteous." After all, he said, two years ago, no one would ever have guessed higher minimum wage laws would be catching fire in cities around the country. "Who can tell what that last thing is that catalyzes big change?"

In that sense, Mr. Price's foray into the public debate on wages is not unlike his newfound passion of wake surfing. Cruising atop the curl of a wave created by a motorboat isn't easy. Lean too far ahead of the swell or drift behind it and you wipe out. For the moment, he is balancing on the crest, enjoying the ride and doing his best to keep from falling off.

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