



Heath Ceramics

How the Bay Area manufacturer is building a more equitable economy by transforming its approach to wages, benefits, and staffing.

Heath Ceramics, a modern, design-led, pottery studio

Heath Ceramics is a Bay Area ceramics manufacturer that produces tableware, tiles, handcrafted furniture, and other premium home goods. Founded in 1948 by Edith and Brian Heath, Heath Ceramics has grown from a small-scale pottery studio into a Bay Area institution. In 2003, Robin Petravic and his wife Catherine Bailey bought the company from the Heath family. They built on Heath's legacy, revitalizing the company, and today, Heath prides itself on being a design-led organization that locally crafts its entire catalog of high-end ceramic ware. It operates two factories, a distribution warehouse, and three showrooms in the Bay Area, and a showroom in Los Angeles.

Building financial stability and wealth for workers

In 2020, Heath Ceramics launched what it calls the Living Wage Initiative (LWI) with the goals of narrowing the income gap between the highest and lowest paid workers, helping employees build financial stability, and making the company a better place to work. Under this initiative, Heath increased its starting hourly wage from \$16 to \$20, the average Bay Area living wage. It also increased pay for employees earning over \$20, proportionate to experience, skill level, and tenure.

According to [MIT's Living Wage Calculator](#), a living wage covers a worker's basic needs including food, housing, transportation, childcare, healthcare, and other necessities. It is specific to the region in which the workers live and is an alternative model to other income thresholds, which often do not account for workers' needs beyond a basic food budget, nor for geographic differences in costs of living.



The launch of Heath's LWI resulted in:

- An immediate boost in wages to \$20 an hour for 28% of Heath's workforce.
- Pay increases for about 50% of employees making under \$75,000 annually.

A strong business case

Life is expensive in California. The state ranks **near the top in cost-of-living expenses** for the entire country, and the Bay Area is especially expensive. And while the cost of living is high, **wages have stagnated** for blue-collar jobs, exacerbating already acute income disparities in the region. This situation has made it extremely difficult for people in low-wage jobs to make ends meet. Under these circumstances, many workers—including Heath's employees—work overtime and/or hold second jobs, and often live far away from their jobs in lower rent communities.

Although the company already offered a starting wage above California's minimum wage and traditional benefits like healthcare, Heath Ceramics' leadership wanted to do more. And the need to support employees became even more salient during the COVID-19 pandemic, which revealed and increased the precarity of low-wage workers across sectors.

However, the company's owners Robin and Cathy knew they could not just make this shift on goodwill alone. They had to establish a compelling business case for launching the LWI, and they saw an opportunity to strengthen the company's unique value proposition—what differentiates Heath from competitors—by investing in its workforce.

Heath Ceramics is renowned for its high-end, beautiful, and locally made ceramics. All production, marketing, shipping, and retail operations are done from local factories without outsourcing, allowing consumers to understand, engage with, and appreciate how the company's products are made. Creating good jobs and retaining top talent have been critical to keep producing locally. Through the LWI, Heath Ceramics is adapting to meet the needs of its employees, who ensure the company's continued existence and success.

“It was a scary commitment. But...it was one of those things of ‘We’ve got to do this.**’ And the challenge, for our team, was to figure out how.”**

— Robin Petravica

Rethinking benefits to pay a living wage

The biggest obstacle to launching the LWI was figuring out how to pay for it. As a manufacturing company, Heath's margins are thin. And the company does not have the deep pockets of many of the region's VC-funded tech companies, so increased labor costs would have to be offset somewhere. Raising prices on finished products was an option—that Heath did employ—but it wouldn't be enough to pay for the initiative alone. And increasing prices too much would risk losing customers.

Heath's Finance Director, Roger Sexton, noticed an opportunity: reallocating some of the money spent on Heath's 401(k) matching program to offset the cost of the LWI, and reallocating the rest of it on a more equitable basis. Heath's 401(k) employer match, like most 401(k) matching programs, was based on employee contribution.

Roger knew that a large proportion of the matching funds went to a small number of well-paid employees—about 50% of matching funds went to just 19% of employees, all top earners, while 30% received no matching funds at all. Employees who could contribute up to 6% of their income got the full employer match, while those who could not contribute a minimum of 1%, got nothing. Although it is designed to encourage workers to save for retirement, this common program design can unintentionally perpetuate income disparities. Roger realized Heath could make its matching program more equitable and redirect some funds to pay lower-earning employees a living wage.

After deliberating with all employees, Heath's leadership decided to adopt a flat employer 401(k) contribution, ranging from \$500–\$1,750 annually, depending on employee tenure. The new model provides each employee with equal access to retirement savings benefits—whether an employee contributes to their 401(k) or not, they still get the employer contribution benefit.

Heath made its first annual contribution to the 401(k) on this basis in December 2021, with nearly 70% of the total amount contributed going to the production, shipping and retail teams.

“Everybody wants to work at a company that does this. They believe in the product, they believe in the company, they believe in the culture and how we treat our employees... But it's still a tough ask for people to give up part of their existing compensation for the benefit of their colleagues.”

— Roger Sexton

Equity takes everyone

While the Living Wage Initiative received support in theory it was difficult to implement in practice. The new policy required higher-paid employees to give up some of their benefits. This was not an easy ask, especially in the middle of a global pandemic.



*"Starting at \$20 an hour has definitely made my job a bit easier...We work with amazing people and **it (LWI) has helped me to keep those amazing people here...** You can see it in the morale of employees.*

— Grant Glossop,
Warehouse and Shipping Manager

*"One of my employees is no longer working a second job. He's also gone from ten-hour shifts down to nine-hour shifts. **It's a better quality of life, especially doing a physical job.**"*

— Joe Farnham,
Dinnerware Production Manager

"I've been able to save up more money and fix my car. Before the initiative, it was really costly paying for things like gas and other utilities just to get here (to work)."

— Alvaro Gabel,
Warehouse Associate

To best manage this organizational change, Heath's leadership decided to engage all employees in the process. The management team made it a point to communicate with all employees to hear what they thought of the initiative. They held focus groups of 4-8 employees from different departments and experience levels. The company also provided translators for its non-English speaking employees. They actively sought employees' input through these meetings by facilitating open conversations to address every worker's concerns.

Ultimately, Heath's leadership decided to prioritize its lower-paid workers. They made a conscious decision to put these workers, whose voices are often the least heard in the workplace, first. Though disappointing in some ways for higher-paid workers, Heath's leadership hoped they would support the company's decision to be a more equity-conscious company that values all employees' well-being.

Nevertheless, higher-paid employees were not left out. Heath generated additional savings through its compensatory revision to pay all employees annual bonuses. The company has also invested in other wealth-building programs, including employee ownership through a profit-sharing Employee Stock Ownership Plan (ESOP). Through the ESOP, Heath purchases shares from existing stakeholders and transfers them to employees at no cost. It is a great way for all employees to build wealth and have a voice in the company.

“We know [we're not done with this work](#). We will need to continually strive to reaffirm our position on this front.”

— Robin Petravic

The expansive benefits of paying a living wage

Today, a year after the Living Wage Initiative was implemented, business at Heath Ceramics is thriving. Profits are up from 2019. Efficiencies from production, shipping, and retail operations have also improved by 5%–10% from pre-pandemic levels. Heath has rehired 100% of the workers it furloughed due to COVID and brought back some of the workers that were laid off to bring its workforce to 85% that of 2019, with starting pay now up to \$22.50/hr.

Allison Banks, Head of People and Culture, is hopeful that the policy will help Heath retain employees, keep turnover costs minimal, attract quality candidates, *and* build a sustainable business over the long run. [Studies agree](#). Of course, it should go without saying that [better jobs also impact employees' well-being](#). Heath's employees report working fewer jobs, shorter shifts, and having more disposable income since the LWI was instituted. And although living in the Bay Area is still expensive, earning more has made things easier.



More work remains

Robin Petravac acknowledges that there is still progress to be made. The Living Wage Initiative is a meaningful step, but it is not the ultimate destination.

The cost of living changes regularly, so Heath's management team knows it will have to adjust over time. In fact, MIT's latest living wage benchmark was 30% higher than the previous benchmark—more than Heath can pay while maintaining a financially viable business. To meet this challenge and stay true to its commitment to a living wage, Heath Ceramics will use an average wage of the past three years to set the minimum increase level any time the benchmark increases by more than 5% year over year. This structure offsets possible dramatic shocks to safeguard the business' continued existence while scaling to meet rising Bay Area living costs.

A model for equitable growth

Heath Ceramic's Living Wage Initiative is a model for building successful and sustainable businesses while paying employees an adequate salary. It is an excellent example of how small businesses can address socio-economic inequality by restructuring their benefits to center equity and redefining wealth creation for their employees and their communities.

Learning from Heath

Heath Ceramics is actively pursuing solutions to address socio-economic inequities and hopes other companies will experiment and learn alongside it. Here are key things Heath learned were essential to managing the initiative successfully.

1. Define your financial parameters

Start with a clear understanding of your finances. This will allow you to understand which levers you can pull to pay for the changes you plan to make and how they will affect your bottomline. Earlier stage companies especially, should be intimately familiar with their current financial positions when considering implementing a LWI. For example, Heath set out to maintain a 5% minimum EBITDA and a minimum cash runway of 2.5.

2. Define your compensation philosophy

Heath prioritized advancing pay equity—guided by its compensation philosophy which centered equity—and looked for ways to do so without compromising its financial health, product, or brand. Drafting a simple compensation philosophy—which can serve as the foundation that drives your company's decision-making—can be a good starting point for early-stage companies.

3. Engage employees at all levels

Implementing complex initiatives like the LWI takes everyone. Ensure that you are engaging employees of all experience levels and backgrounds. Consider holding small group conversations (like Heath did) to ensure everyone is heard. Intentional communication is essential to getting employees' buy-in and the long-term success of the initiative.

4. Develop an ecosystem of support

Consider reaching out to business accelerators like [ICA](#) or [SFMade](#). ICA and SFMade have provided invaluable research, technical support, and thought partnership to hundreds of small businesses. ICA specifically provided data and expertise to Heath Ceramics which illuminated the growing pay disparity in the Bay Area, and spurred creation of the LWI. SFMade strengthens the role of local manufacturers by connecting them to low-income job seekers, and its work ensures that institutions like Heath continue to thrive in the region.



ICA would like to express its gratitude to Robin, Allison, Roger, Alvaro, Grant, Joe, and the entire Heath Ceramics team. If you would like to accelerate your business with ICA or to support our work to close the racial and gender wealth gaps, visit: ica.fund.