BUDGET

The Budget contained some surprises. **James Wilmore** and **Luke Tugby** assess the implications for retailers and shoppers

Budget fallout: What retailers need to know

£7.30

Median wage for hourly paid workers in retail industry at present

British Retail Consortium

IMPACT ON RETAILERS

Retailers have plenty to digest following George Osborne's Budget last week.

A surprise decision to significantly boost the minimum wage for over-25s caught most retailers off guard. On top of that, the Chancellor unveiled well-trailed plans to tear up the rules around Sunday trading. However, there was no further news on business rates.

Living wage

The 'living wage', as it has been branded by Osborne, will mean employers must pay at least £7.20 an hour to those aged over 25 from next April. That is expected to rise to £9.35 by 2020.

The decision is forecast to increase the annual pay of around 2.5 million of the UK's 31 million workers.

But what will be the impact on retail?

On the face of it, plenty of retailers will face a hefty rise in their wage bill. But analysts suggest the industry will not be as heavily affected as other sectors such as leisure and hospitality.

Peel Hunt analyst John Stevenson says: "Commission-led staff will not be affected, young fashion will fall under the age limits and most retailers offer average rates above the £7.20 level."

According to the British Retail Consortium, the median wage for hourly paid workers in the retail industry stands at £7.30.

Barclays analyst Christodoulos Chaviaras says: "Management teams we talked to are generally calm." Of the high street retailers Barclays covers the "majority" already pay above the minimum wage, he says.

Some retailers, however, will be more exposed than others when it comes to their wage bill.

In grocery, for example, three quarters of Sainsbury's staff are aged 25 or over. Its current basic rate of pay is £7.08, which it points out is "considerably above the minimum wage" of £6.50.

But Bernstein analyst Bruno Monteyne says: "It does not move the needle for supermarkets. Wage inflation is just another form of inflation."

Fashion could be even less impacted, because of the greater proportion of young people that work in the sector. For example, 70% of SuperGroup's staff are under 25 so will be exempt from the living wage rules.

As well as relatively few retailers being significantly affected by a costs headache, the living wage could actually bring benefits.

It put more money in people's pockets, which could feed through into retailers' tills. And according to BRC director-general Helen Dickinson, the Government's plan has provided certainty for the industry. "It puts some clarity over the direction of travel for 2020," she says.

Sunday trading

There has been a mixed reaction to the Sunday trading changes, which will give power to councils and elected mayors to decide if big stores – above 3,015 sq ft – can open beyond the current six-hour limit.

Waitrose boss Mark Price says he could see a "commercial opportunity", but McColl's chief executive James Lancaster argues: "These changes will lead to confusion for businesses and shoppers."

Conlumino analyst Joseph Robinson suggests it could be a "double-edged sword" for grocers.

"An extension of Sunday trading hours will spread out spend more thinly across the day, and the increased operational costs will have a negative impact on profitability."

Robinson says the winners are likely to be the discounters and Asda and Morrisons, "the two retailers among the big four that are most reliant on larger supermarkets".

He says: "The main losers will undoubtedly be smaller stores and independents, with these changes compounding the impact of the rise in multiples' convenience estates.

"Moreover, it is highly likely that these changes will have an impact on the grocers' burgeoning convenience estates, with increased competition from rivals' – and their own – larger stores."

But Peel Hunt's Stevenson says the effect will be minimal. "While we believe consumers will embrace longer shopping hours, we see this as largely substitutional," he says.

The one piece of news all retailers will be toasting is the cut in corporation tax to 19% in 2017 and 18% in 2020.

"It puts some clarity over the direction of travel for 2020"

Helen Dickinson, British Retail Consortium

THREE QUARTERS of Sainsbury's staff are over 25; 70% of SuperGroup staff are under 25

11% The increase in pay that over-25s on the minimum wage will get after next April's rise to £7.20 per hour

Benefit cap slashed to **£23,000** in London and **£20,000** a year from April 2017

IMPACT ON THE CONSUMER

Most eyes have been firmly focused on the effect of the Budget on lower earners, for whom the introduction of a compulsory living wage is a clear winner. The Chancellor said the headline-grabbing policy will give a pay rise to 2.5 million workers.

Those earning the minimum wage of £6.50 an hour receive an annual pay packet of £11,863, based on a 35-hour working week. The introduction of the £7.20 living wage next April will mean that increases to £13,140 – a rise of almost 11%.

They will also pay less tax on those wages when the tax-free personal allowance is raised from £10,600 to £11,000 in April.

Benefits bombshell

But Institute For Fiscal Studies director Paul Johnson says tax credit recipients in work will "unequivocally" be made "worse off" because the increase in wages will not make up for losses in benefits.

As part of £12bn worth of cuts to the welfare budget, which will be made by 2020, tax credits will be limited to the first two children in a family, while there will be a four-year freeze on Jobseeker's Allowance and Employment and Support Allowance.

The current benefit cap, which limits payments to £26,000 a year, will be slashed to £23,000 in London from April 2017 and £20,000 elsewhere.

PwC retail consultant David Oliver believes that "poor families with children" will suffer most, but consumers without children who receive the minimum wage are likely to plough cash back into retailers with a lower price point.

Moneysavingexpert.com founder Martin Lewis insists there is not much scope for many of those earning a minimum wage to increase their retail spend.

He says: "You have to assume that these people at the lower end are already shopping in the Poundlands and Poundworlds, and if you look at the food world I think people will be even more careful with what they buy.

"It's quite difficult to discern how that's going to have an impact on retail and at that lower end I'm not quite sure how much room there is for people to shift their spending habits or economise.

"These are people who are already scrimping and saving to try to make ends meet. Ready meals will become more popular because people have to eat. Grocery shopping will become part of their discretionary spend and they won't have much of it."

Retailers must create value from their people

Michael Jary, partner, OC&C Strategy Consultants

A likely response to the Budget's 'living wage' from retailers will be to seek further efficiency, especially through labour-saving technology and simplified store operations.

So expect even more self-checkouts, self-scanning with mobile payment, shelf-ready packaging, narrower ranges, fewer promotions and streamlined offers. A further tactic could be to employ more young people under the age of 25.

All this will accelerate changes in the shape of retail. Online retailers, more able to pursue automation than multi-store physical ones, will be advantaged – unless the uneven playing field is addressed in a future business rates review.

Discounters, already benefiting from a low labour cost model, will be even better placed to grow their share.

But a response to rising wages that focuses only on taking out hours may miss the bigger picture. Retailers will need to find a way to make employees more productive, or better still, more valuable.

Retailers will need to find a way to make employees more productive

HR will become more strategic. The days of 30% to 40% annual staff churn could come to be seen as a shocking loss of capacity and knowledge.

Data analytics has yet to permeate the HR function. Encouraging loyalty in their employees, in the way that many retailers do with their customers, could be an essential approach if the UK moves to a high-wage, low-tax economy.

Strategies to improve performance and develop human capital among even the lowest paid will require much better information on what drives engagement, motivation and retention, and how these can support overall corporate goals.

The Chancellor seems to have given up waiting for increases in productivity to allow raises in the minimum wage, and has decided to try the reverse approach.

If margins are not to be squeezed, retailers had better respond by developing strategies to create more value from their people.