

NEWS ANALYSIS

Ikea is introducing a living wage above that proposed in the Budget, which may have far-reaching consequences for retail. **Matthew Chapman** reports

Ikea steals a march on rivals as it goes beyond living wage

IN THE BUDGET earlier this month Chancellor George Osborne proposed a £7.20 per hour 'living wage'. Furniture giant Ikea is instead introducing the £7.85 per hour rate recommended by the Living Wage Foundation.

Ikea's pay rise will also not exclude staff aged under 25, unlike the new rules set out by the Government.

Much has been made of retail being a labour-intensive industry, and the impact enforced pay rises have has been intensely debated since the introduction of the minimum wage in 1999.

Ikea forecasts its April pay increase will cost it £7.5m during the next financial year because more than 50% of its 9,000 workers will be eligible.

The decision is likely to pressure other retailers to make similar moves, rather than just introduce the minimum required by the Government.

"Others are going to have to follow suit at the start of next year," maintains Verdict senior analyst Andy Stevens. "I think it really is a signal that retailers are starting to understand investing in staff is an investment in customer service."

Ikea UK and Ireland country HR manager Pernille Hagild believes the pay increase will indeed ultimately benefit the customer and is a long-term business decision.

"I'm convinced that it is the right thing to do and it is good business. You will retain more co-workers and engagement will increase," Hagild tells *Retail Week*.

'Values-based' retailer

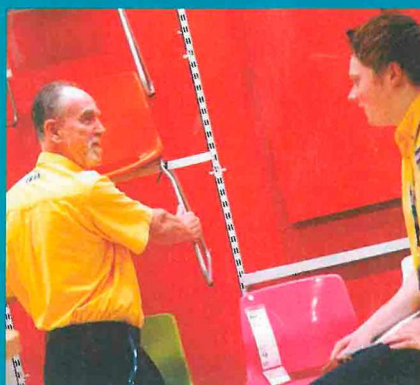
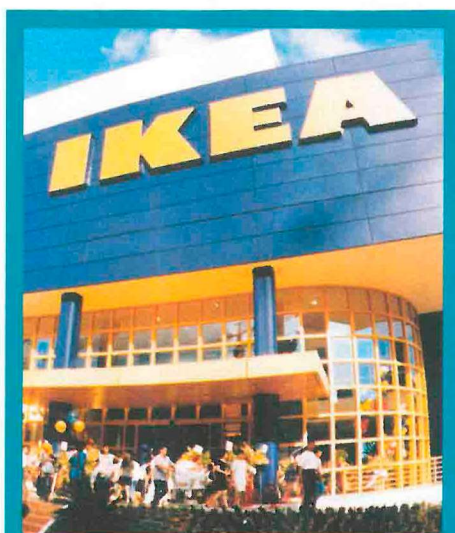
Rather than being a knee-jerk reaction to the Chancellor's surprise announcement, Ikea's decision has been in the offing for a while.

Hagild explains that the retailer has been looking into the pay rise for a "year or more" and has been in discussions with the Living Wage Foundation for "at least nine months".

The initiative ties into a wider transformation of Ikea's employment practices, which included the introduction of a bonus scheme in 2013.

The retailer is also investigating how it approaches the contracted hours its staff work.

At present 35% of Ikea's staff are full-time and the remainder are part-time, while a "handful" are on zero-hours contracts. The latter chose to be on such contracts and



Ikea staff of all ages will be included in the initiative

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Pernille Hagild, Ikea

the retailer is exploring whether it can offer part-timers more hours "as long as it combines with our business needs", according to Hagild.

She maintained that this was all part of Ikea being a "values-based retailer".

Ikea is also a privately owned company its structure affords it greater flexibility.

"Public companies are obviously under a lot more pressure to maintain a level of profitability

from shareholders. Privately owned companies are more inclined to take a longer-term view of stuff like this," says Stevens.

"We will probably see more flexibility from private companies but Plcs are some of the biggest retailers out there and will want to set an example."

Furniture competitors

Ikea staff do not earn commission, unlike employees of many other furniture retailers.

A spokeswoman at recently floated ScS says its retail sales teams already earn "on average higher wages than the living wage".

However, it appears ScS will stick with the Government's prescribed living wage rather than that recommended by the Living Wage Foundation.

"We do have a small number of employees that will benefit positively from the changes to the living wage in April," adds the ScS spokeswoman.

No comment was available from DFS on whether it will follow the example of Ikea.

Luring staff away?

Some have argued that retailers that fail to raise wages beyond what the Chancellor puts into law could lose staff to store groups that pay more.

"People will want to work for someone who will pay you more per hour and retailers will have to take that into consideration," says Stevens.

Ikea's decision will prompt some difficult discussions in the boardrooms of the biggest retailers, but the general move towards paying people more does have a clear positive impact for the sector – the boost to wages could end up in retailers' tills.

"There are a huge amount of people on minimum wage, so the impact will be felt by retail as a whole because people will have more money in their pocket to spend," says Stevens.

"So any wage bill increase could be outweighed by an uplift in consumer spending."

Ikea has taken a big step in enhancing the retail industry's image when it comes to fair pay. If others follow in Ikea's footsteps memories of the pre-election bashing the retail industry received over its employment practices could begin to fade.