Living with the living wage

Osborne's national living wage has added to the cost pressure on retailers

With the national living wage now in effect, retailers are faced with rising staff costs until 2020 and, as **Ben Cooper** reports, more pressure on productivity than ever before

George Osborne kept the big news for right at the end of last year's Budget. When it came, it was a bombshell. A national living wage (NLW) would be enforced on all employers, reaching £9 per hour by 2020.

For the Chancellor it was a big moment. A major increase in the national minimum wage had been advocated for years by campaigners of all stripes, and for him to be the one bestowing this gift to the nation would surely be the pinnacle of his political career.

But, while many in business welcomed the hike, others were ringing alarm bells. The chief executive of the Association of Convenience Stores described it as "reckless"; the Office for Budget Responsibility said it could cost 60,000 jobs; BRC and John Lewis Partnership chairman Sir Charlie Mayfield was even more blunt, saying 900,000 jobs could be lost by 2025 in the retail sector alone; and former Sainsbury's chief Justin King said it was "ludicrous".

So what's going on? With the increase now in effect, are the fears well founded, or could it be, as Iceland boss Malcolm Walker said, a win-win for everybody? And, at a time when margins are already under pressure, how can retailers increase productivity to make up the difference?

With the sector accounting for around a quarter of all national minimum wage employees, and with 10% of all retail jobs paid at or below the former minimum wage, according to the Low Pay Commission, an enforced wage increase is a big deal for retail. Add to that the fact that in many sectors margins are already paper thin, and Retail Remedy managing

The national living wage in numbers

£7.20
new **national living wage** from April 2016

£9.00
level of **national living wage** in 2020

10%
proportion of retail jobs paid at or below the **former minimum wage**
SOURCE: LOW PAY COMMISSION

900,000
BRC chairman Charlie Mayfield's prediction for number of **job losses** in retail by 2025

£6.70
previous **minimum wage** that will still apply to under-25s

1.8m
number of workers predicted to have received an **immediate pay rise**

partner James McGregor says the next four years of wage rises will be tough for many.

"If you look at the profit margin retailers are currently making and then the difference the national living wage is going to make between now and 2020, for lots of retailers that is going to hurt a great proportion, if not all, of their profit. You can see why this is the number-one point on everybody's business agenda," he says.

Cue some high-profile, and controversial, wage-bill-saving tactics. In February, Waitrose ceased paying Sunday and overtime rates for newly employed workers; Tesco, Morrisons and Wilko have slashed Sunday rates from double time to time-and-a-half; and B&Q has become the subject of a national petition started by one of its workers after reducing perks and allowances for its staff.

The other side of the coin

But, despite the negative noises, the concept of paying staff more wasn't universally condemned among retailers. Indeed, many had already decided to pay above what was prescribed in Osborne's Budget, or have since come out as saying they would prefer to go beyond £7.20 per hour.

Verdict retail analyst Patrick O'Brien says this is a smart move, despite the obvious upfront costs. "Many retailers decided to bring in the wage increase in advance of the enforcement, which I think was a good move on the PR front, and it sends out a signal to the staff that they are valued. Retailers are in a difficult position; they don't want to be seen to be railing against this, but it's a major cost burden for them," he says.

Other retailers even embraced the move as a positive, dismissing fears that profits would be hit or that other perks would have to go by the wayside to avoid redundancies. Speaking in July last year, Iceland's Walker said: "It is going to be painful, of course it is. We would have a perfect excuse but it is the right thing to do. Happy staff make for happy customers."

Ian Brinkley, senior economic adviser at The Work Foundation, goes further, saying that higher wages could actually result in cost savings. "There is more motivation and more loyalty if staff feel they are getting well paid for what they are doing," he says. "Another positive of high wages is the cost reduction because of a fall in labour turnover; it becomes easier to recruit and retain people and they are less likely to move on."

Productivity pressures

But, even putting the most positive spin on it, for retailers with hundreds of stores and thousands of staff, a wage increase is a big deal, particularly when you factor in the need to maintain differentials between pay grades.

Speaking to the BBC in August last year, former Sainsbury's boss King wasn't pulling any punches when he said enforcing the NLW was

Waitrose has stopped paying Sunday and overtime rates for new employees

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PATRICK O'BRIEN, VERDICT

not "economically justified" and that the move could even "destroy jobs". "You can't talk about productivity without recognising that one of the consequences of productivity is less people producing the same output," he added.

And Professor Joshua Bamfield, founder of the Centre for Retail Research, says that just as likely as staff being laid off is the prospect of whole stores being shuttered. "Unproductive stores will become ones where you can't actually pay the wage bill, so you've got to do something about it," he says. "These could either be chopped completely, or retailers will have to focus carefully on them and get more out of the staff there."

Looking for solutions

Cutting perks and allowances wherever possible is one solution. But, as B&Q and others have learned to their cost, it can be a double-edged sword. Another likelihood, says O'Brien, is more of a focus on staff members under the age of 25, to whom the NLW doesn't apply.

But for a more long-term fix, increased productivity is the key. In-store solutions were already emerging long before the NLW debate kicked off – most noticeably in the form of self-service checkouts. However, The Work Foundation's Brinkley says that, with a natural limit on how far customers are willing to adopt technology in store, this isn't where the big savings can be made. "The history of technological innovation is littered with examples of things that work but nobody wants to use," he notes. "It's much more likely that the real efficiencies will be made behind the scenes."

Which is where McGregor says retailers should be most focused. "Retailers have to reshape the business propositions and reshape how they work," he says. "There is a lot of activity that the customer never sees but which retailers have to get to grips with, such as whether they are receiving goods pre-retailed or not. If goods arrive without being made ready for store, staff have to spend hours preparing them."

This is just one example taken from a whole range of potential solutions for retailers. Whether it's the way in which stock is boxed up to cut down the number of journeys staff have to make to and from the stock room, or better workforce planning to cover service points more efficiently, there are plenty of ways to work smarter.

Nobody is pretending it will be easy, but retailers know that every challenge is also an opportunity. Productivity in the UK lags far behind many of its European partners – a problem that has puzzled economists and business leaders for years. But, with the right type of investment from retailers and a more motivated, more highly trained workforce, a so-called burden could in fact provide the long-overdue wake-up call the industry needs.