

ANALYSIS

A growing number of companies are committing to paying their staff the living wage. **Luke Tugby** reports on what retailers are doing to prepare for changes to their payroll

How should you tackle the living wage conundrum?

The introduction of the national living wage has sent shockwaves through retail that will reverberate for many years to come.

Three of the industry's biggest employers – Tesco, B&Q and, most recently, Marks & Spencer – have all come under fire for the way they plan to restructure their pay policies, which includes removing staff benefits and scrapping premium pay rates in order to accommodate the Chancellor's £7.20 per hour benchmark for shopfloor staff.

The struggle to meet the new wage regulations goes on, and even greater hurdles will stand in the way of retailers in the future.

By 2020 the national living wage will rise to £9 per hour, leaving many businesses grappling with their balance sheets to find the cost savings necessary to foot their ballooning wage bills.

For many, the additional cost of labour will equate to tens of millions of pounds and, in some cases, will effectively wipe out their profits, unless measures are taken to restructure cost bases, drive productivity and efficiencies or increase automation.

It's going to be painful

Iceland founder and boss Malcolm Walker has been a vocal supporter of the national living wage, but admits the journey to reach the £9 per-hour benchmark within just four years "will be painful" for retailers.

In an attempt to mitigate the impact of sudden annual shifts in wages, the frozen food specialist is now awarding pay increases every six months to "slowly but surely" reach the £9 per hour target.

"People should be able to earn a living wage, so I'm absolutely all in favour of it, but to get there is going to be painful," Walker tells *Retail Week*. "We're not like a factory where you can make some investment and automate and get rid of people. We are in the service industry

and I do not believe we run a fatty operation. We cannot slim down staff numbers.

"We, like a lot of other people, are in that position, so we've got to try and increase sales and increase profitability – that's the only way we're going to be able to pay for it. It's going to make a big dent in our profits but, in theory, higher wages should feed their way back into the economy, maybe even provide a bit of inflation and it could be helpful."

The pain Walker refers to is summed up by the British Retail Consortium (BRC). The industry body estimates that spiralling costs – including business rates, the apprenticeship levy and the national living wage – and the growth of ecommerce will wipe out 900,000 retail jobs by 2025.

Implementing the living wage alone will cost the industry up to £3bn a year, according to BRC chief executive Helen Dickinson. Added to the estimated £140m to £160m for the apprenticeship levy and the additional £550m business rates will add to retail's yearly outgoings, Dickinson warns this will equate to retail "having to find 20% of its profitability."

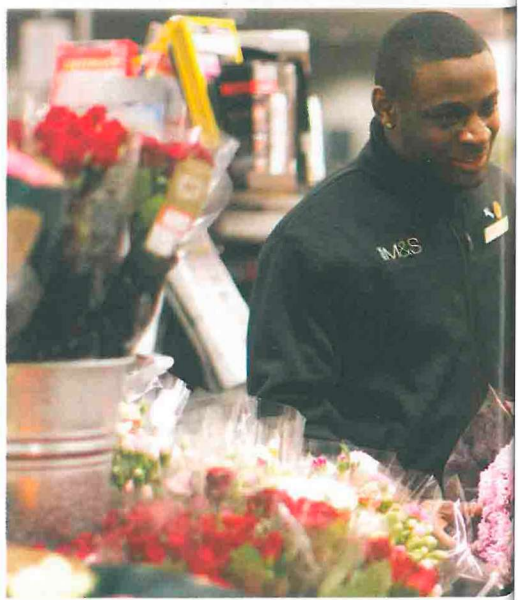
Dickinson explains: "There is a concern about the trajectory to get to 2020 and, in particular, retailers are more concerned about the later years, because it becomes more difficult to pay the more you add on."

"It depends which business you talk to and the profile of their workforce as to how much it will affect them."

"For some, the cost of the living wage might be 50% of profits, for others it might be 25% of its profits, for some it could be virtually all of its profits – it will depend on the profile of the workforce and the nature of the business."

Evolve your strategy

Retailers now face a dilemma over how to overcome such a significant drain on their balance sheets. Do they attempt to evolve their strategies to drive additional profitability? Or



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do they wield the axe to make cost savings? For Dickinson, there is no right or wrong answer, but she believes survival and success in retail in 2020 will be driven by "the agility and innovativeness" of businesses.

"There's no definitive view as to where to save those costs. The industry has been finding efficiencies forever, so this will drive an acceleration of that," she suggests.

"Whether it's in automation in distribution centres or the way that supply chains and logistics are organised, it's as much about the back office and the operations of the business as it is about people."

But when it comes to people, some onlookers suggest that a radical shift in retailers' view of their shopfloor staff is required. Kurt Salmon management consultancy partner Dan Murphy, says: "The nature of retail jobs will be different in the future. There will be a higher customer service element to them and a need for people to be more empowered to do things that fit within the higher level goals of the business."

"The retailers that are successful will be those that take their people to that place and look at staff as an investment rather than a cost."

"Lots of retail businesses already do that, but there are others who perhaps haven't so far."

Even the John Lewis Partnership, renowned for the way it treats its employees, has cautioned that continuing its commitment to pay above the national living wage will almost certainly result in job cuts.

"Higher pay depends on better productivity and greater contribution, and we anticipate that this will mean we will have fewer partners over time as compared to today," John Lewis Partnership chairman Charlie Mayfield warned when the Partnership unveiled its half-year figures last week.

Cutting staff, cutting service

Yet Murphy insists shedding store staff numbers is not the right answer.

"What customers are demanding now is much higher levels of service, so that's completely the wrong thing to do," he says.

"We keep hearing this story of tempting customers back into stores and retailers all say the same thing: we have to provide entertainment, a sense of theatre and excellent levels of service. Do they really think that cancelling double time on Sundays and free lunches will motivate staff to come into stores singing and dancing? What they should be doing is changing the role of store staff. They need to

understand what it is they are there to do, train them to do it and make sure they are incentivised to do it."

Investing in people

Some retailers are already setting the benchmark on that front – and reaping the rewards in terms of performance and staff retention rates.

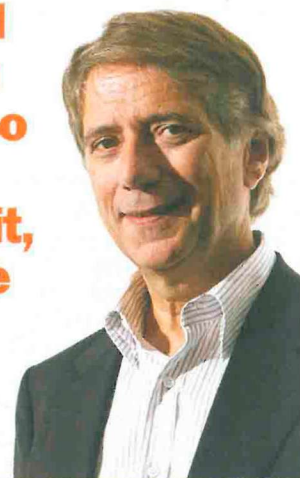
Majestic Wine, for instance, became an accredited living wage employer during the summer, paying all staff a minimum of £8.25 per hour, while discount retailer Aldi started paying its staff at least £8.40 an hour in February.

"By investing in our people, who are the best in the retail industry, and training them to carry out a range of roles in store, we can deliver the efficiencies that underpin our productivity," Aldi boss Matthew Barnes explains.

"The way we structure and manage our stores means store personnel are highly efficient at every level – from the way we

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Malcolm Walker



receive deliveries to the simplicity of our merchandising and checkouts.

Murphy added: "Our employees are given extensive training to enable them to carry out a range of duties, which makes them multi-skilled and able to have a varied role."

Similarly, Majestic Wine believes fair pay and retail success go hand-in-hand.

"We believe you have to be nice to be profitable," says the retailer's chief executive Rowan Gormley. "It's not just a hollow act, but something we believe will drive our business. Customers rate the quality of our people as the number one reason why they shop with us, so recognising our people is vital."

"This is hugely important for our business model, but each retailer will have a different secret to their success."

The big problem for retailers is that the secret to success looks very different in 2020 than it does today – and boardrooms up and down the country will need to come up with answers to the conundrum of the national living wage as they prepare for the retail landscape of tomorrow.