

**2009 Minimum Wage Review
Australian Fair Pay Commission**

**Submission by Master Groccers of
Australia**

20th March 2009

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1. Introduction

The Master Grocers Association Australia (MGA) is a National Employer Industry Association representing all independent grocery and liquor supermarkets in Victoria, New South Wales, Western Australia, Tasmania and the ACT. Independent supermarkets trade under brand names, such as IGA and FoodWorks and they range in size from small to medium and large businesses.

Independent supermarkets play a major role in the retail industry and make a substantial contribution to the communities in which they trade. There are 2,100 independently owned FoodWorks and IGA branded supermarkets employing over 75,000 full time, part time and casual staff, representing \$13 billion in retail sales. Many MGA members are small family businesses, employing 25 or fewer staff.

As many of the independent supermarkets are small, community based, family run businesses, it is often difficult for them to successfully remain competitive with larger supermarkets and retail chain stores. These smaller businesses are more substantially affected by increases in costs to their stores and are forced to compensate for this, often through increased prices and a reduction in the number of employees.

We will submit that a moderate increase to the minimum wage should be implemented by the Australian Fair Pay Commission (AFPC) in 2009. MGA recommends an increase of no more than 2%, which would enable employers to absorb costs, retain employment levels and avoid increasing product prices.

MGA welcomes the opportunity to make this submission to the AFPC in 2009.

2. Summary of Submission

In this submission MGA intends to provide the AFPC with a brief overview of the role of independent supermarkets in the Australian economy and to show the AFPC how this important sector of the retail industry affects a large number of Australian employees.

In order to submit an accurate representation of the concerns faced by independent supermarkets, MGA distributed a survey to its members – *AFPC Federal Minimum Wage Increase: Affect on your business* (Survey). It is important to note that the survey was voluntary and anonymous, which allowed for increased honesty in responses. This submission is based upon the results of the survey.

Retail Industry

MGA will provide an overview of the retail industry and outline some of the complexities faced by employers in this sector of the economy. The retail industry contributes a high percentage of GDP and employs around 14% of the labour force.

Independent supermarkets will be faced with the introduction of the modern General Retail Award from 1 January 2010. We will submit that compliance with this award will result in significant costs to business and that it is unfeasible for independent supermarkets to absorb a high increase in wages in addition to this.

Issues Arising from Previous Decision

Although the 2008 Minimum Wage Increase had varied effects on employers, it is overwhelmingly evident that the wage increase had a negative effect on business. The results of our survey will show that employers were forced to restructure their businesses to maintain their economic viability and incorporate the costs of the wage increase.

Conclusion

We will submit that a moderate increase in wages is the most economically viable option for employers. This will promote economic prosperity, while attending to employment levels and the needs of employees.

3. Retail Industry

The retail industry is classified under the category of distributive trades, which form a part of the services sector of the economy. The distributive trades employ almost two million people or nearly 20 per cent of total employment in Australia¹. It is important to note that 1.5 million people are employed in retail trade, which is the largest employer by industry in Australia, employing over 14 per cent of the working population². Although supermarkets form a portion of this industry, it is nevertheless a significant one and should be considered equally as affected by changes as all businesses in this industry. This is especially the case in light of the introduction of the new General Retail Award, which will come into effect on 1 January 2010. This new modernised award will affect all members of the retail industry, particularly Queensland, ACT, South Australia, NSW, Tasmania and the Northern Territory where penalty rates will be significantly increased and hence, they will be faced with difficulties in compliance, absorption of costs and ability to remain competitive.

In August 2008, the Productivity Commission released a research report entitled 'Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades'³. This provides an invaluable insight to the complexities of the manufacturing and distributive industries. The report showed that retail trades contribute 5.5 per cent of GDP in Australia, which equated to \$5.775 billion in 2006-7. This is over half of all distributive trades combined, which contributed 10.1 per cent of GDP.

Manufacturing and the distributive trades have an above average proportion of small business, that is, employing 1-19 people. In the distributive trades, 45 per cent of business are classified as a 'small business', compared to 30 per cent average across all industries⁴. As previously mentioned, many independent supermarkets are classified as small businesses. Although faced with the same issues as all retail businesses, the consequences of change can be significantly magnified in small businesses. It is important to take this into consideration when implementing a change to the minimum wage, as small business will be more sensitive to higher wage costs.

Independent supermarkets

Independent supermarkets constitute around 20% of the supermarket industry. For these stores, wage costs are an important factor, which can be the determinant in assessing the viability of the business. Wages were an integral concern addressed in the survey distributed to our members.

¹ 'Annual Review of Regulatory Burdens on Business: Manufacturing and Distributive Trades', *Productivity Commission*, pg 11 <http://www.pc.gov.au/__data/assets/pdf_file/0016/83032/04-chapter2.pdf> (11 February 2009)

² Id, pg 13

³ Ibid, n1

⁴ Id, n1, pg 14

As part of the survey, employers were asked how they pay their employees. Twenty four per cent of respondents pay the minimum rate of pay under the award, 24% above the rate of pay under the award and 50% responded that they pay either a mixture of the above or a base rate in conjunction with performance-based pay.

Independent supermarket store owners were asked the following question in the survey: 'What impact will a wage increase in 2009 have on your business?' Those who responded to this question stated that there would be the following effects on their businesses:

- Reduction in profits
- Reduction in the number of staff
- Increase in the hiring of junior employees
- Increase in the prices of goods

Figure 1. What impact will a wage increase in 2009 have on your business?



Reduction in profits

Respondents indicated that a reduction of profits will affect their store due to an increase in the minimum wage in 2009. A reduction of profits is a catalyst for other factors affecting business, such as a reduction of staff to compensate and may lead to closures of small business, as they may not continue to be economically viable.

Reduction in the number of staff

In order to minimise wage costs for the business, respondents indicated they would reduce the number of employees. This increases unemployment in the retail industry, which will greatly affect the domestic level of unemployment. As the retail industry is the largest workforce, it is highly desirable to control and manage wage costs to avoid a spike in unemployment rates.

The wage rate in individual stores may affect the ongoing employment levels and viability of the business. Store owners were asked whether higher than average wages are essential to maintaining employment levels in their business. The employers were divided 50/50, however, indicating that some businesses are already offering higher wages than that of the minimum wage to attract workers to their stores.

On the opposing side, employers were asked 'Will an increase in wages affect your competitiveness in this industry?'. It is evident from the results that the competitiveness of independent supermarkets will be affected detrimentally by higher wages, as a majority of respondents answered 'yes'. Therefore, it is also necessary for employers to control wage costs, as it may force them to increase prices and consequently reduce their competitiveness.

Hiring of junior employees

50% of respondents indicated they would consider increasing the number of junior employees in order to reduce wage costs. This may result in higher unemployment levels in adult generations. If this situation is prevalent amongst all businesses in the retail industry, it may result in a large number of adults unable to find employment, which could have a serious effect on families. Other employers have indicated that the work for junior employees would be decreased as week end, late work and public holiday would be distributed amongst permanent, management staff or the owners of stores would carry out that work themselves.

Increase in the prices of goods

In order to compensate for the increase in wages, 30% of respondents would increase prices of goods. This is a major concern for store owners as it also affects their competitiveness. As such, the increase in goods may exacerbate other economic concerns, such as inflation and a reduction in the number of staff to avoid an unreasonable increase in prices.

Other

13% of stores provided an alternative response to the abovementioned categories. One store owner indicated that their business would suffer a loss of income and 'loyal, good' staff as a result of their age. If the reduction in profits is too high as a result of the 2009 minimum wage increase, they will consider the closure of their business. Although a very unfortunate and extreme consequence, it is nevertheless a real issue faced by independent supermarkets.

Introduction of the General Retail Award 2010

As part of the new workplace relations legislation to be introduced through the Fair Work Bill, currently before the Federal Parliament, all awards will be replaced by modern awards. The award applicable to independent supermarkets in the retail trade will be the General Retail Award 2010.

It is evident this award will impose an economic difficulty on employers in various states, indicated by their responses to the question 'Do you think the introduction of the new Retail Award will detrimentally affect your business?' A large majority expressed concerns over the introduction of the new award, as 91% of respondents answered 'yes'. MGA acknowledges that the AFPC is aware that an increase to the minimum wage could overlap, duplicate or even conflict with parts of the award modernisation process and urges the AFPC to continue assessing these consequences⁵.

Store owners were asked the following question in the survey: 'Do you have any concerns about the new pay and conditions under the proposed General Retail Award 2010?' 85% of the respondents answered 'yes' and although the responses were varied, the main concerns were penalty rates and increase cost of wages. The concerns outlined were:

- Weekend penalty rates
- A need to reduce opening hours
- Loss of income
- Loss of staff
- Union rights of entry
- Increase in wages, increase in prices and reduction of staff, which will lead to a reduction in competitiveness

Other concerns related to roster changes to accommodate for wage rates and increasing the number of hours and duties for management staff to reduce wage costs.

The General Retail Award will inevitably increase costs for independent supermarkets. All stores will be affected; the current awards are all vastly different and contain varying wage rates, penalties and conditions. The introduction of the new award attempts to eradicate discrepancies in employment conditions, but in doing so will reconstruct the current landscape of the workplace.

An increase in the minimum wage is an additional compliance concern for employers and the affects of such should be taken into consideration with the introduction of the new General Retail Award. Both are inevitable changes to the workplace, which will undoubtedly only increase costs for employers.

It is important to note that wages may increase for some states under the new award. Employers were asked a general question to determine the affects of any wage increase in the coming year. When asked the question 'Do you think that a wage increase in 2009 will detrimentally affect your business?' 83% of respondents answered 'yes'.

⁵ Executive Summary July 2008, *Australian Fair Pay Commission*,
<<http://www.fairpay.gov.au/NR/rdonlyres/C7519489-CEB3-4E81-A380-61F6B6370D5A/0/ExecSum.pdf>>
(11 February 2009)

Employers varied in their views as to what was a sustainable increase for their businesses. Their views ranged from zero increase in the immediate future to 2%.

Of the employers who responded that no increase would be viable for their store, one indicated that this was due to the business already trading at its limits, while another employer cited the world economy as a reason for 'freezing' wage increases.

Taking into consideration the abovementioned factors, the current domestic and world economic conditions are of high importance in determining the impact of a wage increase. In order to assess how the economic situation is affecting store owners, they were asked the following question: 'Are the current economic conditions a factor of consideration when answering the above questions?' 85% of respondents answered 'yes', which affirms that the state of the economy is impacting on the decisions and considerations of store owners. This in turn should impact the decision making process of the AFPC when assessing the percentage increase of the minimum wage in 2009.

MGA recommends that the AFPC increase the minimum wage by 2%. By adopting an increase of 2% it would allow employees to maintain their purchasing power and disposable income levels, while employers would be able to absorb the cost of increased wage bills and avoid compensating for the increase through other means.

4. Issues Arising from Previous Decision

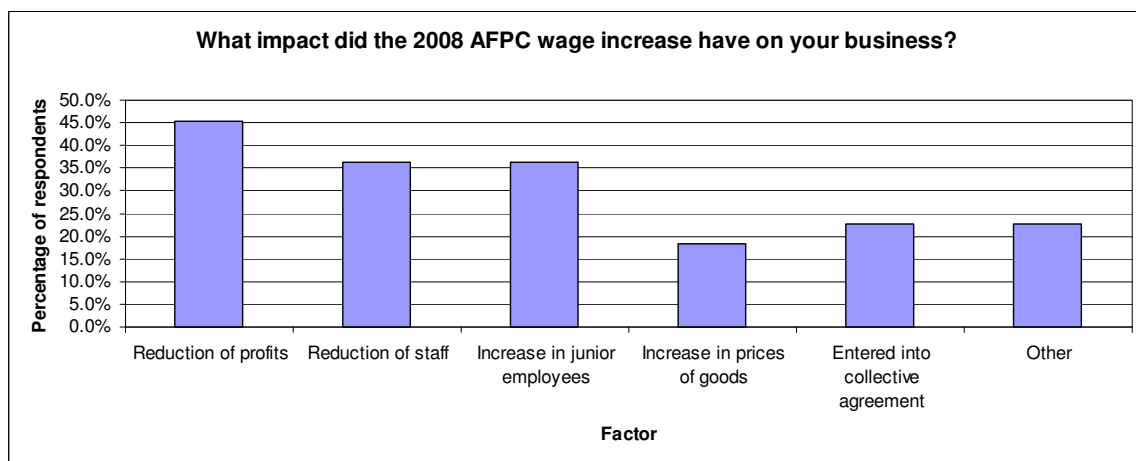
The 2008 AFPC minimum wage decision is commended by MGA. We acknowledge that the AFPC extensively considered relevant factors affecting businesses owners, including inflation, employment conditions and the safety net for low-paid workers⁶. In making the 2009 decision, MGA strongly urges the AFPC to apply the same level of research and consideration to the abovementioned factors.

In order to determine the effects of the AFPC 2008 minimum wage increase by \$0.57 per hour, store owners were asked the following question: 'What impact did the 2008 AFPC wage increase have on your business?'

The AFPC Decision negatively affected a majority of the respondents to the survey. Those stores on a store collective agreement were not affected by the wage increase. The remaining stores increased the work load for management staff in situations where rostered employees were unable to work their hours. The effects of the wage increase were:

- Reduction in profits
- Reduction in the number of employees
- Increase in the hiring of junior employees
- Increase in the prices of goods
- Entered into a collective agreement

Figure 2. What impact did the 2008 AFPC wage increase have on your business?



Reduction in profits

Respondents indicated that they were affected by a reduction of profits as a result of the minimum wage increase in 2008. The reduction amount ranged from .5% to 20%, with most

⁶ Ibid, n5

experiencing a reduction of 2%. It is important to remember that many independent supermarkets operate with a very limited profit margin and any alteration to this will affect the overall viability of the business. The reduction of profits of the stores also led to reduction of employees to compensate for increased wage bills and also an increase in the prices of goods to generate higher income for the store.

Reduction in the number of employees

As a result of the increase a number of employers reduced the number of employees. Not all stores specified the number of staff members whose employment was terminated. As many independent supermarkets are classified as small businesses, any loss of employees is a significant one. In small communities and rural locations, these businesses provide valuable employment opportunities for locals in the area and any decrease in employment levels greatly affects the community.

Increase in the hiring of junior employees

There was an increase in the number of junior employees. One future consequence of this is that once these employees reach 21 years of age, they will be faced with unemployment as they are too expensive for the stores to retain. This results in a 'churning' of junior employees through businesses and a low retention rate of adult employees.

Increase in the prices of goods

To offset the wage increase and generate more income for the store, 17% of respondents increased the prices of goods. This is an undesirable consequence for the domestic economy, as it adds to inflationary pressures and reduces the purchasing power of customers.

It is evident that the effects of the 2008 minimum wage decision are varied amongst the stores. Although some stores were affected in only one way, for example, reduced staff, other stores compensated for the increase in a combination of methods. One store, for example, was affected by all of the abovementioned factors. This situation is certainly an unfavourable one for the employer and the possibility of such should be taken into consideration when determining the level of increase in the 2009 AFPC minimum wage decision.

5. Conclusion

MGA submits that a moderate increase of 2% is an economically viable increase to the minimum wage in 2009. Retailers and in particular, independent supermarkets, are faced with the introduction of the General Retail Award on 1 January 2010, which will inevitably increase compliance and wage costs for employers. It is evident that the introduction of this award and the current economic climate are two major concerns faced by business owners and are contributing to a reduction of staff. In order to avoid rising unemployment in this sector, wage costs must be controlled to allow employers to retain staff and avoid altering rosters.

The results of the survey conducted by MGA clearly portray that the 2008 AFPC minimum wage increase created unfavourable business conditions for employers, including a reduction of staff and increased prices of products. In order to avoid these unfavourable consequences in 2009, it is of utmost importance that the following factors are taken into consideration:

- the current economic climate,
- the introduction of the General Retail Award,
- rising unemployment,
- steady growth in the Labour Price Index and
- the concerns outlined by employers in independent supermarkets as outlined in our survey.

We submit that an increase of 2% sufficiently benefits employees, as well as protecting the interests of employer.

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