Master Grocers Australia Limited

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MGA Independent Retailers

MGA Timber Merchants Australia

(MGA/TMA)

Submission to the Fair Work Commission

Wage Panel

Fair Work Australia Annual Wage Review

2019- 2020

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Contents

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ABOUT MGA INDEPENDENT RETAILERS AND MGA TIMBER MERCHANTS AUSTRALIA (MGA/TMA)

MGA Independent Retailers (MGA/TMA) is a national employer industry association representing independent grocery, liquor, and other retail outlets including timber and hardware, in all States and Territories of Australia. These businesses range in size from small, to medium and large, and make a significant contribution to the retail industry, accounting for approximately $16 billion in retail sales.[1]

There are 2,700 branded independent grocery stores, trading under brand names such as: Drakes, Farmer Jacks, FoodWorks, Foodland, Friendly Grocers, IGA, IGA Xpress, Supa IGA and SPAR, with a further approximately 1,300 independent supermarkets trading under their own local brand names. In addition, there are numerous independent liquor stores operating throughout Australia and trading under names such as: Cellarbrations, The Bottle O, Duncans, and Local Liquor, which are either single or multi-store owners. Our members also own independent hardware stores trade under brand names including Mitre 10, Home Timber and Hardware, Thrifty Link and True Value Hardware. These stores which collectively employ more than 120,000 staff are comparatively much smaller when juxtaposed against the large supermarket and hardware chains of Coles, Woolworths and Bunnings, which combined represent approximately 80 per cent of the retail supermarket and liquor industries and 65% of hardware industries.

[1] PricewaterhouseCoopers, *The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia* (June 2007), p iv

Employees in the independent supermarket, liquor, timber and hardware sectors are generally employed on the minimum award rates set by the General Retail Industry Award 2010 and the Timber Industry Award 2010. The majority of stores that operate in the independent sector are small, independent, family owned, community- based businesses that have established themselves in the retail/hardware sector and they make a significant contribution to the economy. These businesses face genuine difficulty in absorbing the costs of wage increases as opposed to their larger chain counterparts, and they struggle to maintain viability when faced with increased wages costs. In the last three years the small business independent grocery, liquor and timber/hardware retail sectors have undergone wage increases of significant proportions. The market is becoming more difficult each year and a further increase in 2020 will severely damage the viability for many small businesses of continuing in business. In this submission MGA/TMA intends to present evidence to the Fair Work Commission that will show the damaging consequences for these small businesses if wages are increased to a level that is unsustainable.

MGA/TMA thanks the Fair Work Commission ('the Commission') for the opportunity to make this submission to the Minimum Wage Panel ('the Panel') on behalf of its members for the purposes of the Annual Wage Review 2019-2020.

EXECUTIVE SUMMARY

This submission, presented on behalf of MGA/TMA, is intended to present the Fair Work Commission with facts, evidence and data that demonstrates the need for wage restraint if the independent retail sector is to survive. This division of retail consisting of mainly small family owned businesses employs thousands of employees in both city and regional areas all over the country and collectively they make a vital contribution to the Australian economy.

Independent retailers are resilient and have survived the difficulties of engaging in business despite the significant wage increases of the past three years and they have survived the threats of competition even against their biggest rivals, that have grown in number over the last few years. They have faced threats from many sources and more recently from foreign sources, but they have managed to remain viable despite these obstacles. They service their local communities and they purchase products that are sourced locally for their businesses. Small independent retailers support their local professionals and local suppliers, by utilising their services and their products.

Independent retailers are resilient but now they are in a difficult and strained economic environment. Inflation and interest rates are low, and the economic outlook is very uneasy. The independent retail industry, along with many other industries, is facing the most unexpected and unprecedented set of economic circumstances. Currently, the outbreak of the coronavirus has sent the economies of the world reeling and has created a world-wide state of uncertainty. There is help being sought for small businesses from the Federal Government that is desperately needed, including tax relief, but at this stage exactly what that may be remains unknown.

Other difficulties are facing the independent retail sector. Unemployment may be at a low level at 5%, but the underemployment, which is rife in the retail industry, is one of the main indicators that the independent retail sector is in difficulty. Employers are simply unable to offer the hours of work to staff that were previously available. Part time and casual labour are being widely used in stores, but even these jobs could be in doubt as family members and owners themselves are starting to work in their businesses. There is greater reliance on junior employees who are less experienced, but also a cheaper option and these facts are borne out in the evidence that is presented in this submission. Independent retailers have always been a source of employment for young workers and work in the local supermarket is often the first job held by a young person, but that opportunity could soon disappear if a store is no longer able to provide employment due to the cost of higher wages.

The independent retail sector has particular characteristics operating for years in city and country regions. It is their locations in many regional areas where they have suffered such dire consequences as a result of the recent bushfires, and more lately flooding and now the fear of COVID 19. They will need to rebuild not only their businesses but also their lost homes and in the event of the coronavirus impacting them their future security cannot be predicted. Restoring their businesses will be a challenge and if they have to do that with a higher wage cost than previously, then recovery will be slower and be even more difficult than was previously expected.

The economy is at a low ebb, the employment rate may be low but there are other factors that are impacting on the economy which will not be easily overcome, and growth is not expected in the immediate future. What little hope there was for economic recovery in the next few months has been severely damaged by factors beyond political and economic control. MGA/TMA strongly believes and intends to prove to the Commission that 2020 is not the time for any significant increase in wages.

MGA/TMA submits that there should not be any wage increase applied to the General Retail Industry Award and the Timber Industry Award wages in 2020 given the crippling effect of 9.8% that has been borne by the independent retail sector in the last three years. Such a realistic wage increase would allow the industry to survive in extremely difficult economic times and permit a period of recovery.

Annual Wage Review and National Minimum Wage Order

Whilst supporting a limited increase to the minimum wage order, MGA/TMA seeks that any increase made to the Minimum wage order should not be the same as that applied to the General Industry Retail Award (GRA).

This separation of the different rates is sought because the GRA rates of pay are higher than the minimum wage and the evidence presented in this submission show conclusively that recent above CPI increases to the GRA have resulted in less hours being offered to staff.

Further, the evidence presented in this report demonstrates any future increase to the GRA above CPI increases will see employees in the independent retail industry lose more hours of work and will fall disproportionately on younger and casual employees.

Separating the two wage rates is also sought because the MGA anticipates the COVID 19 crisis will persist for at least 12 months and the negative economic effects from this crisis will fall disproportionately on small business employees.

INTRODUCTION

MGA/TMA does not support an increase to the modern award rate in the General Retail Industry Award and Timber Industry Award. It is not economically feasible for the independent supermarket, liquor and hardware sectors across Australia, which form the predominant membership of MGA/TMA, to sustain an increase to the award rate following the 3.00 per cent award wage increase to awards in July 2019.

During the period since the last Annual Wage Review in 2019 the members of MGA/TMA have been impacted significantly by the decision of the Fair Work Commission to provide an increase of 3.0% to all modern awards, particularly when the previous increases of 3.3% in 2018 and the increase of 3.5% in 2017 are added to the cost impact over a three year period . In addition to the annual wage increases awarded over the last 3 years there have been significant amendments made to the General Retail Industry Award (GRIA) that have affected the viability of many stores to maintain their businesses, including increased penalties rates for casual employees on weeknights and Saturdays.

The exorbitant cost of energy is also a severe impost on the ability of many retailers to remain viable. Any further increases in costs whether it be wages, amendments to the award or further increases in energy costs for retailers, together they will have a severe adverse impact on the financial stability of independent businesses and their ability to maintain employment levels. Many small retailers have now been impacted by recent natural disasters as they cope with the complete loss of their businesses with the 2020 bushfire catastrophe. Trying to rebuild their homes and their lost businesses in country regions will be extremely difficult and if they are faced with higher wage costs it will be impossible. A further additional unexpected cost will be the impact on tourism, particularly regional tourism, together with the threat of the coronavirus. Small shops thrive on tourism but in 2020 any reliance on overseas visitors has now been shattered by the unfortunate outbreak of the disease.

Independent small and medium businesses are a highly significant value to the Australian economy and to the communities in which they operate. Particularly, they are a key gateway to employment for millions of Australians which is significant, given the levels of unemployment amongst young Australians (those aged between 15 and 24) who, as an age group, are predominantly employed in award-reliant retail businesses.

Independent businesses are small in comparison to the larger chains who are their competitors such as Coles and Woolworths and larger liquor outlets that are owned by the bigger supermarkets. Nevertheless, independent supermarkets and liquor stores continue their endeavours to remain viable in difficult market conditions. Smaller hardware stores also contend with the likes of Bunnings who are their biggest competitors. There was certainly some relief in the recent decision by the international retail giant Kaufland, to withdraw from the Australian market although the combined strength of international chains such as Costco, Aldi and Amazon have had, and continue to have, a devastating effect on small independent retailers. MGA/TMA appreciates the that Fair Work Commission may not see competition as a factor in the wage setting process but continuous external pressures of this nature continually affects small independent businesses and makes their survival even more precarious when they are combined with significant wage increases.

MGA/TMA will show the Fair Work Commission that there is strong evidence to support wage restraint for the year 2020- 2021 including the effects of the current economic downturn on small business and particularly the combined effects of the last three years of wage increases. These include the need to reduce of trading hours, the increase in the independent retail sector of underemployment, the burden of owners working longer hours and the increase in the number of stores that can no longer cope with the difficulties of losing business. MGA/TMA has conducted significant research of the industry through a survey of members and produced a practical analysis of the information that we believe will demonstrate the consequences of further wage rises at this critical time. The results of this survey will be provided as evidence in this submission.

MGA/TMA is aware that overall unemployment is at a reasonably low level and this would normally be advantageous for the economy but currently any positive gains that would normally flow from such a low rate is overshadowed by a high underemployment rate. Wages may currently be seen as weak and the impetus would therefore be to provide for wage growth in order to stimulate the economy, but that could result in jobs being lost due to lack of affordability, thereby increasing underemployment in the retail industry.

MGA/TMA will also show that as wages have increased over the last three years the total cost of employing staff has risen proportionally to the point that business survival is threatened. Whereas a medium sized supermarket could, several years ago, confidently predict certainty for the future, now that is no longer the case. There is now fear that another significant increase will severely affect the ability to survive in the current economic climate given the collective impact of significant annual wage increases since 2017.

We trust that the evidence presented by MGA/TMA in this submission, which was independently conducted and then reviewed independently by Professor Phil Lewis, Director, Centre for Labour Market Research, Australian National University, ACT will demonstrate to the Panel that a significant wage increase will seriously affect the continued viability of independent retailers, who make a massive contribution to the economy and the communities in which they operate. It is again submitted that any increase to the minimum award rates will adversely affect independent supermarkets, liquor, hardware and small timber businesses throughout Australia.

THE REQUIREMENTS OF THE ANNUAL WAGE REVIEW 2019-2020

The Fair Work Commission (FWC) is required to conduct an annual review of wages in Australia, to review award minimum wages and the national minimum wage order. and make a determination in accordance with the Fair Work Act as prescribed in Section 285 (2) (b) of the Fair Work Act 2010. (the Act)

The minimum wage objective includes the need for the FWC to establish and maintain a safety net of fair minimum wages, including at Section 284(1)(a) “the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth”

The Act, in its note at Section 284(2), states that the FWC must take into account the objectives of the Act and any other applicable decisions in setting, varying or revoking modern award minimum wages and specifies that the FWC must apply the objectives of the Act in considering the Annual wage review. These objectives at Section 3 of the Act include, but are not limited to, “providing workplace relations laws that are fair to working Australians, are flexible for business, promote productivity and economic growth for Australia’s future economic prosperity……”

Additionally, Section 284(1) of the Act states that, the FWA, “must establish and maintain a safety net of fair minimum wages, taking into account, the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth;”

MGA/TMA understands that the National Minimum Wage Order is considered under section 294 (1) of the Act to provide for award/agreement free employees who are classified as junior employees, employees to whom training arrangements apply and employees with a disability, and also for the casual loading for award free employees.

It is submitted that any increase to the Minimum Wage Order should not automatically be applied to the Award wage review rate.

MGA/TMA applauds and supports the objective of FWA in providing for fair minimum wages and hopes that because businesses, particularly small businesses, are being impacted by low productivity, low inflation and a diminishing labour force due to the massive increase in underemployment, that the Fair Work Panel will seriously consider not increasing wages in 2020 to unreasonable and unsustainable levels. We intend to show that there are undeniable factors that will cause further losses for small businesses, there is strong evidence to show that there will be further job losses, increased underemployment and store closures. MGA/TMA will demonstrate to the Panel that there is compelling evidence against increasing wages to levels that that will have serious deleterious effects on the livelihoods of small businesses.

MGA/TMA submits that it is open to the Panel to make no adjustment to minimum award wages based on the current competitive business environment and economic conditions. In this submission we will outline our arguments for the Panel to consider no increase to the wages in the General Retail Industry Award and the Timber Industry Award at this critically difficult economic time.

THE AUSTRALIAN ECONOMY 2020 -THE RETAIL INDUSTRY

Over the last year the Australian economy has slumped. There were positive signs of gain earlier in the year but there was a considerable slowdown in the last few months before Christmas. Midway through 2019 the Australian economy was slowing down, almost to the levels of 2009, so that by September 2019 the evidence demonstrated that it was sinking even further, according to Business Reporter, Stephen Letts, "In seasonally adjusted terms, GDP expanded by 0.5% over the June quarter, or 1.4% for the year, which was equal to the worst annual growth recorded in the aftermath of the global financial crisis in the September quarter of 2009"[2]. Productivity had shown no signs of improvement by December 2019 and the former Head of the Productivity Commission, Mr Gary Banks said at that time that productivity was regarded as

[2] Stephen Letts Business Reporter https/www.abc.net/news2019—09-94/gdp-q2-2019/1147474470

consistently weak in Australia. Labour productivity had fallen 0.2% which was a first for decades.

Generally, the Australian economy has remained weak over the last year with GDP growth falling to 1.4%. Business confidence remains low, the retail sector remains particularly subdued and there appears to be little chance of change in the immediate future.[3]

The period immediately before Christmas 2019 no doubt appeared to be hopeful as there were 4200 full time jobs and 35700 part time jobs added to the employment numbers in November 2019. However, in respect of pre- Christmas part time employment Mr. Josh Williamson, a Citi economist did highlight that “90% of the job gains came from pre- Christmas employment” which would explain the surge.[4]

The Australian economy relies heavily on consumer spending and the figures at the end of 2019 showed that retail spending was at its lowest level in 28 years. Retail sales grew at only 2.5% in 2019 and were 0.2% lower than the previous year. The most significant spending growth was in hospitality, especially in cafes and take away food services with a +0.1% in food retailing.[5] The efforts by the Federal Government to boost the economy by providing a taxation stimulus mid- year had little or no impact on consumer spending. Even the consistent reductions in interest rates, accompanied by the taxation cuts, had seemingly little effect on stimulating the economy. Whilst economists do see some signs of growth for 2020 it will undoubtedly be a slow process.

Any hopes that were held for a boost in wages growth has been gradually diminished in the last few months. According to the Reserve Bank of Australia in November 2019 wages growth was forecast as 2.3% of annual growth and with the level of unemployed likely to remain steady combined with the increasing underemployment rates will undoubtedly stunt any further wages growth.

The economic outlook for 2020 is not promising. The serious weather conditions over recent months have severely impacted many industries including retailing, farming, tourism and construction. Many small retailing businesses in Australian regional areas

[3] State Economic handbook September 2019 Business Research and Insights (https//business.nab.co.au/wo -content/uploads/2019/09/State-overview-sept- 2019 .pdf)
[4] The Australian Financial Review 20 December 2019

[5] Ben James ABS Director Quarterly economy wide surveys

have been devastated as a result of catastrophic weather conditions. The December 2019 /January 2020 period brought widespread destruction as bushfires hit regions throughout Australia that will take years of

recovery. Many rural businesses will rebuild from zero, but some will never recover. Small businesses will need all the support that can be offered to them, including Government grants which will take time to implement and have any substantial effects. While they are trying to rebuild any significant increase in wages at this crucial time would be a substantial obstacle to their recovery.

In February 2020 the Governor of the Reserve Bank, Phillip Lowe, addressed the House of Representatives Standing Committee on Economics and highlighted factors that are likely to impact on the economic outlook for Australia. He considered a number of factors influencing the economic outlook and monetary policy. A positive factor was that the economic outlook was likely to improve from 2% to 2¾% and to 3% by end of 2021. Mr Lowe said," "The expected pickup growth is supported by accommodative monetary policy, a new expansion in the resources sector, stronger consumer spending and a recovery in dwelling investment later this year . High levels of spending on infrastructure and strong growth in public demand are also helping the economy" [6]

Whilst recognising that there were some positive economic recovery signs for the future there were still some international and domestic consideration that might influence economic uncertainty in the future. Mr. Lowe pointed out it was necessary to consider the possibility of renewed trade dispute tensions between the United States and China in the wake of the outbreak of the coronavirus in China, which could both impact on world trade. On the domestic front the household spending is weak and the impact of bushfires, and drought have left communities without their homes and their livelihoods. A combination of these factors will inevitably impact on our economy.[7]

Inflation rate in Australia

The Reserve Bank would like to see Australia achieve between 2 and 3% inflation rate over time, in 2019 the inflation rate was around 1.9% although towards the end of 2019 it was 1.6%. The current rate is therefore below the Reserve Bank's expectations and

[6] htpps/www.rba.gov.au/specches/2020/sp-gov-2020-02-07.html
[7] Ibid page2/6

according to the Australian Bureau of Statistics this is mainly due to the high cost of clothing, household equipment and alcohol and tobacco. If there is any increase in wages this may increase inflation but there have been several rate cuts in 2019, with the possibility of another in early 2020 which will slow down inflation improvement[8]

Interest rates are predicted to remain low and the inflation rate will continue to remain low with further cash rate cuts in 2020. Inflation is predicted to remain low and wages growth is unlikely to change.[9]

The impact of Unemployment/ Underemployment in Australia

The unemployment rate in Australia has reduced to its lowest level since March 2019 at 5.1%. Considering the low unemployment rate in isolation is tempting because it gives the impression that there is a reasonably high level of employment. However, this is not the case as the underemployment level is increasing and it is particularly rife in the retail industry. The increase in these statistics is due to the growth in part- time employment. The Bureau of Statistics noted that, "While there had been a stronger growth in part time employment over the past year the underemployment rate is still where it was in last December, at 8.3%." [10]

The higher underemployment rate is expected to lessen the pressure on the Reserve Bank to reduce interest rates once again.[11] According to the Bureau of Statistics in January 2019 the unemployment rate remained steady at 5.1%[12] having dropped as low as 5% in late 2018 , the lowest level in six years.[13] At the time it was anticipated that this would trigger an acceleration of inflation and wage growth, although it was expected to be a slow process.

It was suggested twelve months ago that the low unemployment rate was likely to trigger wage growth and at that time it was commented upon by Paul Dales, Chief Economist of Capital Economics[14]who said that low unemployment will not mean increased wages and he cited three reasons, "First we think the natural rate is closer to

[8] https://www.focus-economics.com/country-indicator/australia/inflation
[9] C Richardson, Access Deloitte economics Business Outlook 2020
[10] Chief Economist Bruce Hockman Reserve Bank of Australia
[11] Stephen Letts https//www.abc.net/news/2020-01-23/unemployment-and-jobs-december-2019/1191964
[12] Australian Bureau of Statistics Jan 2019
[13] https://www.businessinsuider.com.au/markets "Australia's jobless rate falls to 5% , the lowest level in six years" David Scutt author
[14] Ibid Paul Dales Chief Economist of Capital Economics page 5

4% so the unemployment rate could probably fall further before the upward pressure on wage growth intensifies. Second the unemployment rate is not capturing all spare capacity. The ABS's new estimate of the monthly underemployment rate stayed at 8.7% in September, which is still unusually high. Third, the structural forces that have restrained wage growth in all major economies aren't going to disappear" So rather than acceleration in wages the impetus is for restrained wage growth at the present time.

It appears that the prediction was correct. Australia has had taxation cuts following the outcome of the Federal election in mid- 2019 and increases to wages in the last twelve months through the 3% Annual Wage Review. It was hoped that both outcomes would provide the stimulus that was needed to boost the economy. It is clearly evident by the fact that there has been no anticipated increased spending that was hoped for by these stimuli, as neither has provided any impetus to the economy that is so desperately needed.

Retailers generally are unable to provide full time hours to employees. The underemployment rate at the end of 2019 was 8.5% The ABS defines the underemployment as "employees aged 15 years and over who want and are available for more hours of work than they currently have." The number of hours worked is generally less than 35 hours a week but generally employees want to work more hours and in most cases are immediately available to work those hours. Some employees who are engaged full time even want to work additional hours or overtime. The underemployed between the ages 15 -24 score the highest underemployment rate of 18.1%, other age groups have a ratio of between 6.6% and 7% with those over 55 years having the lowest ratio of 6.6%. Over a 20year period the total underemployment rate increased by 78%.[15]

Lower skilled employees in industries, such as retail and hospitality, have the highest numbers of underemployment which is a feature of the retail industry for several reasons. The spread of hours over the working week are at times that often suit certain categories of employees but there will always be those who want to work on a full time basis, 57% of part time employees indicated that they wanted more work.[16] Those employed as casuals have high ratios of underemployment. Those who are under

[15] www.abs.gov.au/ausstats /abs@nsf/Lookup 602.Omain+featuress september 2018
[16] Ibid

employed are naturally in competition with unemployed people often for the same jobs. Underemployment is a serious impediment to economic growth. Small independent retailers constantly find themselves unable to provide additional hours of work to employees despite employees desperately needing extra hours of work. Small, family operated retail businesses are often forced to replace the hours of work of a loyal hardworking employee with a family member. It is becoming a sad reality for independent business operators that when they can no longer afford the wages of the long serving employees, that they have no choice but to replace them with family members because they can no longer afford to employ them.

The evidence that this is becoming all too common is revealed in the survey that was undertaken by MGA/TMA and is shown in the data that is presented in this submission. Any wage increase in 2020 will inhibit the ability of a retailer to offer the hours of work that are so desperately needed to help boost the economy. MGA/TMA will show that employees have had hours of work reduced in the past and this will continue to happen in the future if employers are further pressured by increased wages that they can ill afford.

Youth unemployment

Taking a job as a teenager in the local grocery store is feature of life in country towns but that may not be available to many young people aspiring to get a job in areas where bushfires and flooding have been a feature in 2020. Although young workers are cheaper, they also have fewer skills and less experience and are often the first to be shown the door. As the Reserve Bank paper puts it: "The heightened sensitivity of younger workers to demand better conditions may reflect a 'last in, first out' practice.[17]"

If a young person does manage to get part time or casual work it is usually because they want to combine their studies with a job, and the supermarket industry is a typical place to start. However, the seeking of full-time work by a young person typically indicates that they want to start a career, to gain on-the-job training and to achieve some form of independence[18].

The Brotherhood of St. Laurence constantly researches the difficulties that young people have in obtaining work and stated that although the National unemployment

[17] Labour Market Outcomes for Younger People, *Reserve Bank of Australia*: Bulletin June 2018, pg 11.
[18] Parliament of Australia, Department of Parliamentary Services – *Research Paper Series:* Vandenbroek, 2017-18 pg 2.

rate is quoted at around 5%, the actual unemployment rate for youth in this country is at 11.2% for those aged between 15- 24. This is more than double unemployment rate in Australia[19] The Director of the Brotherhood of St Laurence said that, "Young people come out of education and training with high hopes and aspirations for independence. It's devastating that despite 28 years of continuous economic growth, too many young Australians are locked out of the prosperity dividend," [20] There are many "hotspots" of unemployed youth that range from 23.3% of the population in the Coffs Harbour to Grafton region of NSW down to 14.3 % In the New England and North West Region in NSW.

Unfortunately, there are many young people that are not working either because they simply cannot get a job, or they try a range of jobs, and are not able to get into one that offers some form of training. Then they simply opt out of the work force and become disillusioned[21].

The retail industry remains one of the few entry-level job paths for young people, as the economy shifts its focus more on services such as education and knowledge industries, including information technology and health care. Independent retailers especially in country regions are the main source of employment for young people. Although in 2019 there appears to be a boost in employment figures this does not necessarily mean employment increases in the independent retail industry and this is mainly due to the heavy cost of employment. If wages rise to a level that forces retailers to employ fewer people youth employment will decline further and a genuine source of assistance for young people will disappear.

THE INDEPENDENT RETAILER IN THE AUSTRALIAN RETAIL INDUSTRY

The retail industry generally is a vital component of the Australian economy employing approximately 1,403 000 employees at the end of 2019, from juniors through to senior positions. There are more than 133,000 retail businesses in Australia, contributing around 5 per cent of gross domestic product and 9 per cent of total hours worked in the Australian economy.[22] Food retailing – the bulk of which in terms of turnover comes

[19] Australias latest 29 youth unemployment hotspot shttps://www.bsl.org.au/media/media-releases/australias-latest-20-youth-unemployment-hotspots-ranked/ March 2019
[20] Ibid
[21] Ibid at *Figure 1: Growth in youth*.
[22] Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade*, Research Report, Canberra, p 2.

from supermarkets and grocery stores – accounted for around 48 per cent ($108.2 billion) of total retail turnover in 2013-14.[23] Approximately 95 per cent of all retail businesses are either non-employing or small businesses (1 – 19 employees)[24]. Around 51 per cent of retail employees work in a full- time capacity, with the remaining portion working either on a part-time or casual basis.[25]

The retail sector employs a far greater proportion of the least-skilled and most vulnerable workers in Australia, including youth, students, single parents, non-primary income earners in households, trainees, apprentices, and mature-aged workers returning to the workforce.

Small family owned, independent retail businesses are in 2020 facing the toughest most difficult time in all their years of business. They are generally single stores, that are family owned private businesses and may fall into three categories. The first is the small, or local shop, usually 'owner- operated", and family owned, that is a prominent "high street entity 'supporting the local communities, offering employment to the local teenagers and supporting their local producers. Then there is the medium sized store that has "grown up" to become more prominent in the community and business circles whilst still retaining their "small shop" attitude. Then there is the larger independent store that, in some cases has a number of other smaller satellite stores that may have larger floor space, but all are owned by the one entity however, they retain their independence and they still need to fight hard against their giant competitors.

All independent retailers play a massive role in the retail industry they provide competition, they are a source of employment, they contribute generally to economy and they are a great source of competition, and they fight fiercely to maintain their independence. There are approximately115,000 individuals are employed in the independent supermarket industry representing a significant proportion of all employees employed in grocery retailing. The Independent hardware /timber industry MGA/TMA members have approximately 5000 employees that includes skilled workers and unskilled workers.

[23] Ibid p. 38
[24] ABS*, Counts of Australian Businesses, Including Entries and Exits, June 2010 to June 2014*, April, Canberra, Cataloguer No. 8165.0
[25] ABS, *Labour Force, Australia, Detailed, Quarterly, Nov 2014*, Catalogue No. 6291.0.55.003.

Independent supermarkets source a great proportion of their goods and services from local producers and local service providers (e.g. local accountants, local printers, and local storage, warehousing and wholesalers), and account for a larger proportion of grocery employment than the market share they hold. These types of support services would likely be procured interstate or centrally by other major grocery retailers.

The independent retail industry once consisted of the local corner shop or small hardware store. Today many independent businesses have progressed to become much bigger and more conscious of the expansion opportunities that are available to them, so they have worked hard to grow their businesses. In comparison to their Australian and foreign rivals, independent stores remain able to compete, but smaller stores still struggle. Nevertheless, there remains a place in the retail world for all retail businesses and together they form a critical component of the overall Australian national economy.

But there are now many challenges which the independent retail sector has to deal with as the level of competition in the retail industry continues to expand . Now we also have online shopping and the ability to compete with the spread of on- line purchasing is taking its toll as its influence extends even further. Online supermarkets are growing at a rapid rate and it anticipated that online shopping in this sector will increase by approximately 75% over the next five years[26] Small businesses will have to participate in the internet race at some stage but it is undoubtedly a question of having the financial ability to implement the process.

However, we are now seeing a further development in retailing. For over a decade the small convenience store has been challenged by the larger supermarkets and the small local hardware stores has been overcome by the giant retail outlets that sell everything from timber to gardening utensils. But change is continuous as the retail environment embraces new technology, and there is always competition and innovation, all vying for consumer attention. It is not a phenomenon that has just happened, the industry has been cognizant of the changing retail environment for some time, but changes are frequent and moving at a rapid pace. For years we have watched the growth of the giant supermarkets swamp the smaller retailers. The irony now is that many of the larger retailers are seizing the opportunity to recapture the look and feel of the smaller

[26] Bankwest Future of Business : Focus on supermarkets(2018-2019)- Bankwest for business

grocery stores. The supermarket giants have now invested in specialty grocery stores selling fresh local products thus allowing them to compete with the smaller retailer or local convenience stores. It is arguable as to where the competition for the small to medium sized business lies although it should be remembered that while giants like Coles and Woolworths may venture into smaller stores the bigger power is always behind them. That still leaves a challenge for the independent store because whereas they could rely on the look and feel of being “small’ now the larger chains are now also cashing in on that concept.

In 2019 the giant international retailer Kaufland planned to build many mega retail outlets in Australia and was seen as the biggest threat to the grocery retail industry since the entry of Aldi but now having decided to abandon Australia it does not necessarily leave the smaller grocer any safer. “Large multinational corporations are entering the online market and are putting pressure on existing bricks and mortar supermarkets and grocery stores, especially the smaller ones. Amazon recently launched into the Australian food market with 400 pages of pantry and package food products, while Costco is rolling out its online store in Australia in 2019”[27]. All this comes at a cost to the smaller retailers who fight to stay in the industry and struggle to maintain their offering to their customers and seek new ways to battle their rivals. The retail industry does not fear competition, but it has to have the financial capability to defend its position and if wages are unrealistically increased and therefore the business becomes unviable then their ability to compete with their bigger rivals will continue to decline and employment will reduce.

The Impact of recent bushfires

Add to the woes of the economy the unexpected impact of the recent bushfire devastation, particularly in country regions of towns that have either lost or damaged retail stores and building centres across Victoria, South Australia, Queensland and NSW. These losses include shops, stock, homes, vehicles, livestock animals and personal possessions. This importantly also includes jobs. Employers no longer have their businesses and there are no jobs for employees. If wages are increased again then the employment situation will worsen despite the desperate attempt to rebuild communities, they will simply fall into abeyance. Added to the personal losses that

[27] Ibid

many Australian retail businesses have suffered there is also the serious damage to the tourism industry. The lack of local tourism is significant but there is also now the national and international fear of travelling through the regions and that is likely to last for some time into the future. Retailers rely on the crowds of tourists who come to the towns and purchase goods from their stores. As the usual numbers of tourists decrease businesses will struggle and jobs will be lost. Businesses will close because they will not be able to pay wages if the customers don't come. Recovery may be possible in time but in the short term it would be retrograde to put a further barrier in the way of those trying to survive by increasing wages that they simply cannot afford to pay. The evidence of the difficulties being faced currently by retailers will become clear when the results of the survey are viewed (see below) which will show that even before this submission there were already problems, but now circumstances have worsened.

Further damage to local communities will result from people leaving their homes in search of work elsewhere. Maintaining realistic wage rates to ensure that people are able to rebuild their businesses by being able to offer employment to those who desperately need jobs is an important consideration and MGA/TMA urges the Panel to consider keeping wages increases low enough to enable communities to rebuild and restore their businesses.

The Impact of the coronavirus (COVID 19)

The coronavirus has impacted not only the retail industry, but all industries, and the economy has already seen the effects of COVID 19 with the share market dropping to unprecedented levels. The problems facing small businesses include whether they will be able to retain their staff numbers, whether they can protect their staff and their customers and the need to enforce the precautions that will inevitably be put in place. There is already evidence of panic amongst the public and this has to be contained. Many retailers have expressed the fear of whole stores being forced to close should the virus continue to spread. There will always be a degree of hysteria surrounding any outbreak of this kind and although the best approach is to remain calm and follow the medical advice that is currently being provided this will not necessarily stop the unease that continues to grow. The economic impact is expected to worsen.

It has been suggested that wages should not be linked to the outbreak of the disease and that may well be the case but what is more important is the overall effect on businesses as profits decline, staff are unable to work and possibly stores forced to close. This will undoubtedly affect the economy as a whole and therefore consideration must be given to the total economic effects of COVID 19 on the future of all industries. Now is not the time to be considering increasing wages.

Wages in the Independent retail sector

(a) Grocery and liquor shops

The independent retail industry, as distinct from other private sector industries, employs a high proportion of award reliant employees. The Commission's Research Report 1/2017[28] at 3.22 refers specifically to the retail industry as one of the highest award reliant industries in Australia, with 37.2 per cent of the industry being award reliant. The difficulty of not having enough flexibility in their businesses because they are not able to negotiate an enterprise agreement leaves those who operate under the General Retail award at a distinct disadvantage.

Because a significant number of MGA/TMA independent retailers are reliant on the awards , MGA/TMA requests that the Panel be mindful of the impact of any wage increase on those who are not able to enter into enterprise bargaining simply because they could never meet the "better off overall" test that is a pre-requisite for such an agreement. In support of this point, MGA/TMA refers to the Panel's 2009-10 Annual Wage Review decision, wherein it accepted that:

"for some employers, particularly in award-reliant industries, there will be cost increases arising from the application of modern award wages and conditions. And this is clearly a relevant consideration for us. [29]

The significance of this statement remains relevant today. Over the last few years the increases to the award rates of pay have become increasingly burdensome for retailers, the higher the rate increase the higher the burden that falls on the independent retailers as the base rate of pay increases on every penalty or award restructure that may have changed during the previous year.

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[28] Fair Work Commission Award Reliant workers in the household income distribution Carlos Jimenez and avid Rozenbes February 2017 page 14
[29] [2010] FWAFB 4000, 291.

The award system has systematically undergone a process of “award reviews” since the introduction of the modern award system in 2010. This has meant that there have been a number of changes to the General Retail Industry Award during the award reviews held over the last 10 years. Consequently, there have been award increases for various categories of employees which have resulted in ever increasing costs for the employer. The only rate that has reduced over time has been the Sunday penalty rate. However, the introduction of increased overtime rates before 6am during the week and before 9.00am on Sundays has incurred enormous costs to retail employers which small businesses can ill afford. What may seem a small increase to a basic wage rate is in fact overall extremely significant depending on when an employee works in one week. It is not unusual for a retail employee to receive 5 or 6 different penalties applied to an award in one shift. It seems the changes to the General Retail Industry Award are continuous. The most recent additional penalty was for work after 6pm on weekdays and on Saturdays and that will be ongoing until 2021.

It is hardly any wonder that no matter how vigilant an employer might be the fear of making a mistake is ever present and it can happen to even the most diligent employer. Now there is the fear of being accused of “alleged wage theft” and the threat that this will become a criminal offence, which is totally unjustified. Although a simpler system has been proposed with an all-in rate’. being suggested. This may be a solution but what would the total rate be because the total cost of the penalties would be significant and complex to encompass in one amount.

Many independent retailers would like to make an enterprise agreement with their employees, and many have seriously considered entering into a new agreement or contemplated entering into an enterprise bargaining arrangement. However, the cost to the business of meeting the better off overall test was simply unviable and in most cases was abandoned. The only solution has been to leave the General Retail industry Award in their businesses. This is in contrast to their bigger rivals who have enterprise agreements with higher wage rates and they also pay any increase awarded by the Fair Work Commission annually to the base rate in their agreement. Smaller independent retailers simply do not have the luxury of rewarding their staff with similar rates of pay.

In the independent retail sector, a retailer wanting to employ an adult casual supermarket assistant on Sunday currently will have to pay $37.47 an hour, and on a public holiday that will be $53.53 an hour. An eighteen year -old, part time employee will receive $24.73 an hour on Sunday and on a public holiday will receive $33.73 an hour. At the present time these rates are making it difficult to employ young Australians and if the rate goes any higher it will become increasingly difficult for the local supermarket owner to retain the employment of the current staff.

The prospect of a further wage increase in addition to the 3.0% increase that was awarded in 2019 would seriously damage the ability of many retailers to maintain their businesses and MGA/TMA urges the Panel to seriously consider the implications which will inevitably result in store closure and the consequent loss of jobs if a wage increase is introduced in 2020.

To ensure job stability, increased workforce participation and the overall performance and competitiveness of the national retail sector, MGA/TMA seeks that the Panel considers the damaging effects on the independent supermarket sector of a significant wage increase.

Despite the competitive nature of the industry small independent grocery retailers have managed thus far to hold their position in the industry but the road ahead will be difficult. Because independent retailers are constantly in competition with their rivals the need for wages to be kept at a reasonable level is a constant worry for them. They understand the need to provide for fair and reasonable wages but there needs to be some period of respite. Unless there is a period of respite where they can recover and grow, rather that fighting simply to survive then this vital sector of the economy will eventually die. That will leave thousands without jobs as there will be insufficient work in any other source.

MGA/TMA submits that while the independent supermarket, liquor and hardware store sectors are a substantial contributor to Australian employment their longevity in maintaining high employment levels will be greatly assisted by not awarding any wage increase to the General Retail Industry Award or the Timber Industry Award in 2020.

(b) Timber and Hardware sector

There are several issues facing the timber hardware and sector that add to the complexities of working in a small business in an industry that is dominated by much larger businesses. There tends to be a considerable turnover of staff in smaller businesses as they are enticed away by the offer of over award rates. This leads to a shortage of experienced skilled staff in small businesses as they succumb to the attractions of special over award deals and incentives.

The problem of a labour shortage is resolved to a great extent by drawing on overseas labour in order to maintain effective workforce. However, this then presents other problems as there is a need to provide intensive training and micro-management which adds further cost to the business and this will drive down the financial ability to maintain staff

The high cost of fuel is a major cost to small to medium sized businesses timber and hardware businesses. The cost of diesel has increased more in the last 12 months and gap is getting wider. The industry continues to contend with the amendments to the Heavy Vehicle National Laws in 2018 that require every party to the heavy vehicle transport of goods supply chain has a duty to ensure the safety of their transport activities. These new laws added further to the cost of operating the business of timber manufacturers and suppliers.

Where businesses have owned their site for many years the recent increase to Land Tax is exorbitant and a great impact relative to the ability to pay wages and this can mean businesses reducing their staff numbers to allow for additional expenses.

The recent fire losses of timber resources from State forests and plantations are only one source of uncertainty for the timber industry. There is a lack of significant detail on the State Government's *Victorian Forestry Plan* and, in the absence of clarity, rumours and misunderstandings are rife.
There is an immediate need for clarity and planning to ensure employment continuity within all aspects of the timber and forestry industry – with the leaders of the Australian Forest Contractors Association (AFCA), Australian Forest Products Association (AFPA) and Construction, Forestry, Maritime, Mining and Energy Union (CFMMEU) – urgently requesting a further discussion with the Victorian State government.

Timber manufacturers and builders may also be concerned about the quality of certain graded pine produced from plantation areas affected by the recent fires. At present, there is a group of experts with direct fire salvage and processing experience from previous fire events advising affected regions on the best way to keep the large volume of fire damaged plantation logs in good condition.

Timber is an essential renewable resource and will be even more important over the coming months as communities begin to rebuild homes and critical infrastructure damaged or destroyed by fire.

Timber harvesting takes place in less than 1% of state forests each year and all areas are fully regrown and there is no doubt that there will be quality and supply issues in the months ahead.

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It is clear that the timber industry is under difficult and strained circumstances at the present time. These challenges will continue to threaten the viability of many timber businesses into the future. Any wage increase will put further pressure on already struggling timber businesses due to their vulnerability particularly in country regions that were affected by floods and bushfires. Now, in addition to economic pressures, all businesses and their employees will feel the impact of COVID-19 making the coming year extremely difficult.

The future of the Australian economy

At the present time it is difficult to predict the immediate future of the Australian economy. As of March 2020, the economy appears to be in a critical state. Many reports are predicting that the

Australian economy is heading towards recession, causing the Australian Government to consider a stimulus package which may include assistance for small businesses. Right now we are poised on the brink of recession, and the Prime Minister, Mr.Scott Morrison has said “We have one goal in 2020- to protect the health, well- being and livelihoods of Australians through this global crisis and to ensure when recovery comes, and it will, we are well positioned to bounce back strongly to the other side”

It was being argued a few weeks ago that keeping wages low was a sound option and even Dr. Phillip Lowe believed that wage growth was likely to remain low for some time and more particularly that, “Inflation is likely to remain low for some time, reflecting low growth in the labour costs and strong competition in retailing. A gradual pickup in inflation is expected as the economy strengthens.” [30] Whilst there are those who believed that an increase in wages was the best solution for larger business who would be able to afford a wage hike. This may have been the case several weeks ago but suddenly the world has changed as stock markets tumble and we are surrounded by economic uncertainty. Any significant increase in wages at this time will only increase the likelihood of job losses and possible store closures.

Increased award rates negatively impact on the ability of employers to provide sufficient hours of work. Retail employers often manage increases in award rates of pay by reducing the number of hours offered to their employees, and in many instances, they take on that work themselves to mitigate the cost burden. The ability to remain sustainable will largely depend on profit margins and the ability to pay the cost of the essential labour needed to operate the business. The question is whether that is affordable? The table below provides an estimate of the cost to a retail business of wage increases.

[30] Dr Lowe Reserve Bank Governor. March 6th 2018- Interest rates on hold

Estimated cost to employ staff in the Independent supermarket industry and the impact of increases of 2% to 3.5%

Estimated cost to employ staff in the Independent supermarket sector						
MGA Members	**Small**	**Medium**	**Large**	**Total**		
Branded Store numbers	600	1200	700	2500		
Staff numbers per store	30	60	100			
FTE's - average 25 hours per head	20	39	66			
Total Hours per week	450000	1800000	1750000	4000000		
Average weekly wage inc penalties & OT (+25%)	$1,025	$1,025	$1,025			
Total wages	**$631,184,211**	**$2,524,736,842**	**$2,454,605,263**	**$5,610,526,316**		
Wage increase scenarios - effect of any further increases per store / business			**% Increase**	**$'s Increase**	**$'s per store per week**	**$'s per store per annum**
Additional current costs to employ staff			Add 1%	$56,105,263	$432	$22,442
			Add 2%	$112,210,526	$863	$44,884
Plus Super @ 9.5%	$504,947,368		Add 3%	$168,315,789	$1,295	$67,326
Plus AL Loading	$75,526,316		Add 3.5%	$196,368,421	$1,511	$78,547

It is noted in the Fair Work Commission Annual Wage Review 2019 decision that the retail industry failed to provide any tangible evidence of how an increase in award rates would adversely affect their members as follows:

"[167] No detriment resulting from the wage increases awarded in the last 2 Review decisions can be identified in the data for the 5 most award-reliant industries. No party provided any relevant data or evidence to the contrary. Apart from the specific circumstances which appear to be applicable to Retail trade, these industries are travelling reasonably well in terms of profit growth, business survival and employment growth. Wage growth in all these industries remains below 3 per cent despite last year's increase. The data tends to confirm our view as to the scope to adjust minimum wages without occasioning adverse labour market consequences"[31]

MGA/TMA conducted a survey of its 2,500 members and then sought an academic assessment of the data that was provided by the members to be submitted as evidence to the Review Panel for consideration. The survey was sent to all members and was

[31] FWC Annual Wage Review Decision May 2019 Para 167

completed in January 2020. The survey and the findings were then analysed in an academic report. These documents are included below as Documents 'A' and 'B" as evidence in support of the arguments presented in this submission as follows:

Document 'A' The 'MGA Member Survey: Impact of Wage Changes' was prepared by Factuality Research and was commissioned by MGA/TMA in November 2019. The purpose of this survey was to enable the retailers themselves to record the difficulties they have experienced over the past three years in coping with wage increases. The research questions and answers were intended to provide the Commission with evidence of what is likely to happen in the future if a wage increase is introduced which will make business survival difficult in 2020.

Document 'B' Report by Professor Phil Lewis, Director, Centre for Labour Market Research Australian National University ACT. was commissioned by MGA/TMA in December 2019. The purpose of this Report was to provide evidence to the Commission in the form of an analysis of the information that was sought from the member respondents to the survey referred to in Document A as submitted to the Commission.

Included below as Document 'A' and Document 'B' respectively.

The key findings of Professor Lewis are that recent above CPI increases to the GRA have resulted in less hours being offered to staff, and any future above CPI increases to the GRA will see employees lose more hours. Further that younger and casual employees have and will suffer the greatest loss of hours.

MASTER GROCERS AUSTRALIA LIMITED

Document 'A'

THE MGA MEMBER SURVEY 'IMPACT OF WAGE CHANGES'

Prepared by

FACTUALITY RESEARCH

Commissioned by

MGA/TMA

MGA Member Survey: Impact of Wage Changes

Factuality Research November 2019

"MAKING LIFE EASIER"

Fieldwork

A quantitative survey of MGA members conducted online in November 2019. Fieldwork was managed by Qualtrics, a major designer and provider of research software, which fielded the survey to MGA members, then weighted and processed data into results.

The survey fieldwork ran from 24th October to 20th November 2019.

Raw results were geographically weighted to the state and territory distribution of MGA members as different states carry different laws and practices regarding grocers, including regulations of opening hours and in Queensland, grocers are barred from holding liquor licences.

The sample covers grocers (mostly), grocers that also sell liquor and a small number of hardware/timber stores, all MGA members.

Note that the margin for error is +/ 5.4% at the 95% confidence level. However when the sample is divided into sub-categories, as it is in many parts of this report, the ME is greater and these figures should be regarded as indicative only. This especially applies to hardware/timber stores as, being only 11% of the total sample (n=36), results for this category give only a very broad indication of the true figure. To a lesser extent, the same applies to liquor stores (n=123).

Summary of findings [1]

The impact of wage increases on employment in stores owned by MGA members over the past three years has been considerable and this will continue if another wage rise of similar magnitude is granted by the Fair Work Commission during 2020.

Most, 91% of MGA members, say minimum wage increases have affected employment in their store or stores. Of this 91%:

- 92% report cutting employee hours
- 67% have cut the number of employees
- 41% have increased casualisation of their workforce

On a different measure, 78% of members say the total annual hours worked by employees in their stores has fallen over the past three years. 94% of them attribute at least part of this to pay increases granted by the Fair Work Commission. The other major cause is increases in electricity costs, stated by 63%. Compliance or red tape, rental costs and reduced consumer demand have also been blamed each by just over one third of members.

70% of members report that pay increases granted by the FWC have been the main cause of increased business costs over the last three years. Another 23% name it second, mostly behind electricity.

Summary of findings [2]

If another 3% wage rise is granted by the FWC:

- 85% of members say they would reduce staff hours per week, the median reduction being between 11 and 20 hours
- 60% say they would employ more staff casually
- 56% indicate they would reduce staff numbers, with one third of these saying the cut would be more than 10% of staff numbers
- 84% say they themselves or their families would work more hours per week, the median being between 11 and 20 extra hours
- 38% would reduce their trading hours, most commonly closing earlier on weekday and/or weekends. Some would also open their stores later than they do now.

Comments by survey participants paint a clear picture of what has been happening in their sector:

1. The economic environment has been worsening due to:
   - Flat consumer demand
   - The expansion of major supermarket chains, Coles, Woolworth and Aldi, especially into many regional areas. Typically they open for extended hours and have high cost competitiveness, due in part to being more automated and less labour dependent than smaller grocers. The business model of smaller grocers places more emphasis on personal service.

Summary of findings [3]

2. Wage increases are adding to the economic pressure.
3. For most, this is necessitating compensatory changes to hold their wage bills steady.
    - Usually this involves cutting staff numbers or hours, employing more younger, less experienced staff (which often diminishes service standards) or having owners or family members work more hours instead of paid employees.
4. Many stores have also reduced trading hours or close on more days of the year.
5. In addition, 30% of MGA members now report considering more automation to replace employees.

- Several also make the point that it is easier to cut wages that other major expenses such as rents, electricity or waste management costs. These other costs offer very little scope for flexibility.

Members also provided detail about changes that have occurred during the past three years, from 2017 to 2019:

- The percentage of stores in which extra hours are being worked by owners or their families instead of employees compared to the previous year rose from 73% in 2017 to 92% in 2019. In more than half of these stores in 2019, owners and their families worked at least 16 hours more than they did in 2018.

- The number of staff employed by stores has dropped. In 2017, the percentage of stores employing 16 staff or more stood at 56%; by 2019 it dropped to 48%. Similarly, the proportion of stores employing between only one and five employees has risen from 15% in 2017 to 22% in 2019.

- Most stores have not granted permanent employment to employees because of wage increases.

Summary of findings [4]

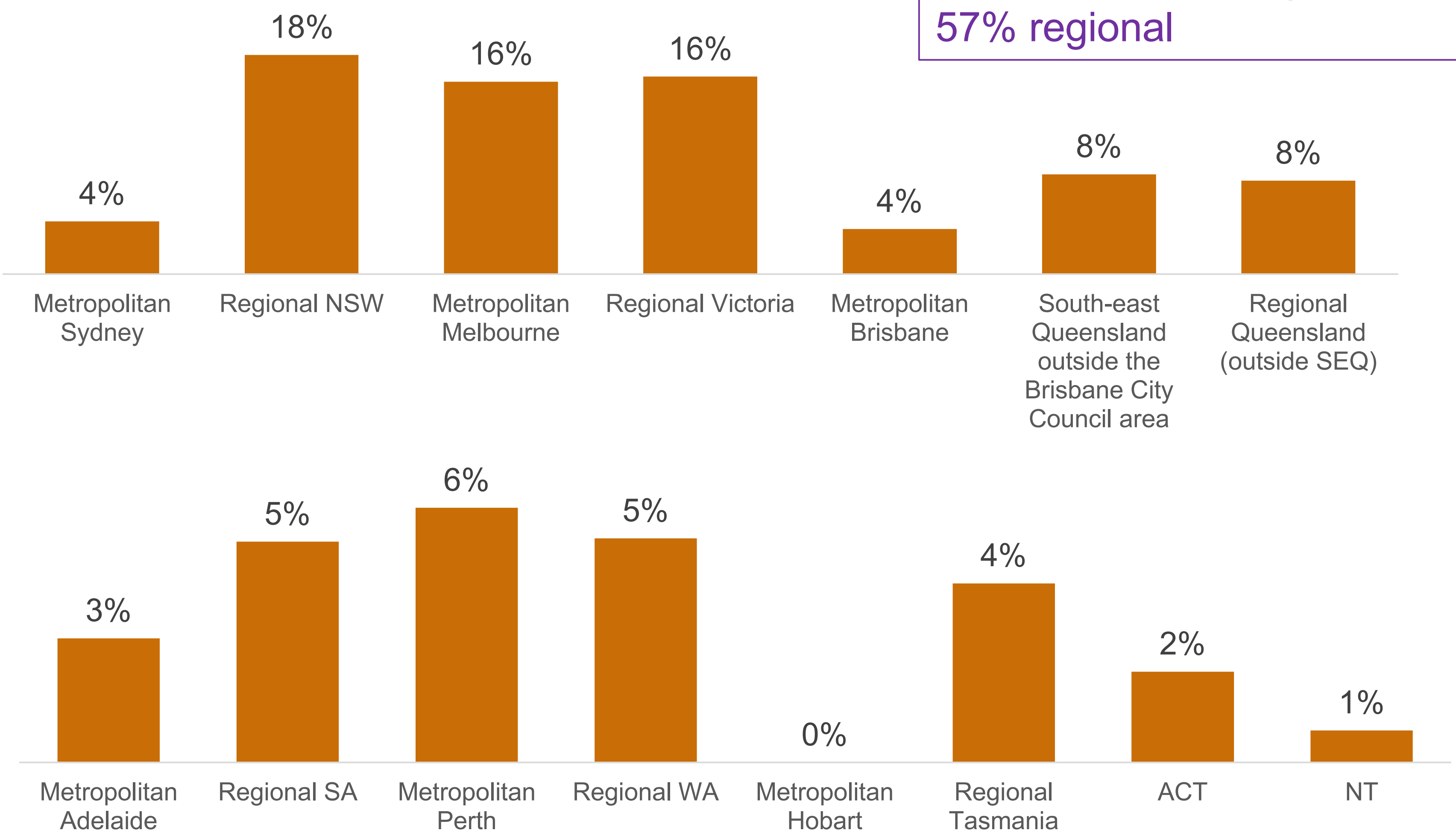
- In 2017, 10% of stores report having reduced their trading hours. This increased to 29% in 2019. Typically, stores are closing when the proportion of net turnover to wages is negative or only marginally positive. Most commonly, this occurs when penalty rates are payable. Again, many owners work more hours themselves to avoid reducing trading hours.
- Similarly, the number of members who say they closed their store on more days than in the previous year has risen from 6% in 2017 to 18% in 2019. Usually, the affected days are public holidays, including Christmas Day, Good Friday, Anzac Day and the grand final holiday in Victoria. Some stores also now close on Sundays. Among members who own or manage more than one store, some work extra hours in one store but close the others.

Sample details

Location of stores covered - % in the sample by state/territory and metro/regional

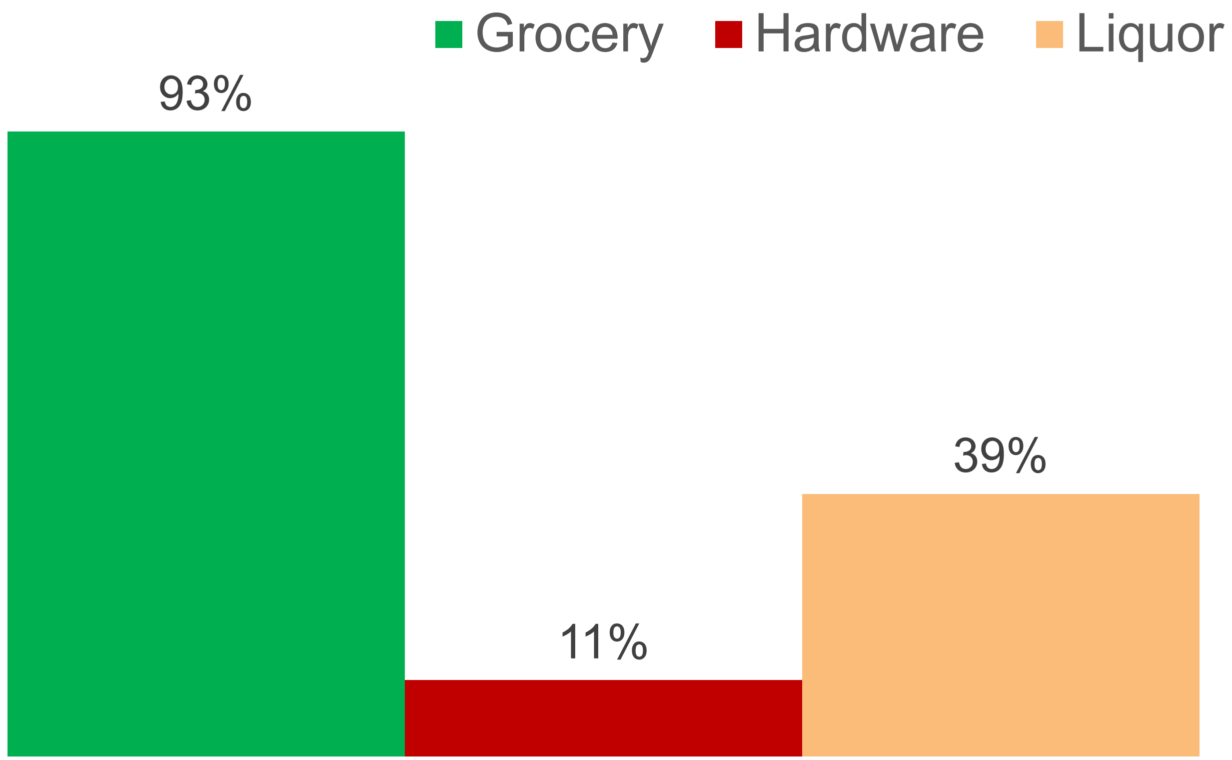
Which best describes the location of your store?

Overall, 43% metropolitan, 57% regional



93% of sample respondents are grocers; 43% of the sample covers more than one category, commonly grocery and liquor

Your store or stores' sector (Select all that apply)



Three-quarters of the sample represent one store, as either sole or joint owner

Are you?

	A sole owner of one store/outlet	A joint owner of one store/outlet	A sole owner of more than one store/outlet	A joint owner of more than one store/outlet	A full-time manager but not owner of the store you work in	Other
All	47%	27%	10%	13%	2%	0%
Grocery	46%	28%	10%	13%	3%	0%
Hardware/timber	53%	27%	3%	11%	5%	2%
Liquor	48%	29%	9%	12%	1%	1%

Employee numbers vary; survey median is 16 to 30

How many employees does your store employ?

	15 or less	16 to 30	31 to 60	More than 60
All	34%	32%	21%	13%
Grocery	33%	34%	21%	13%
Hardware/timber*	40%	18%	25%	17%
Liquor	34%	32%	18%	16%
A sole owner of one store/outlet	37%	39%	17%	6%
A joint owner of one store/outlet	46%	30%	14%	9%
A sole owner of more than one store/outlet	23%	26%	33%	18%
A joint owner of more than one store/outlet	9%	12%	41%	38%
A full-time manager but not owner of the store you work in	0%	46%	21%	32%

*Hardware figures throughout this document are only broadly indicative due to small sample

80% of sample operates under award made by the Fair Work Commission

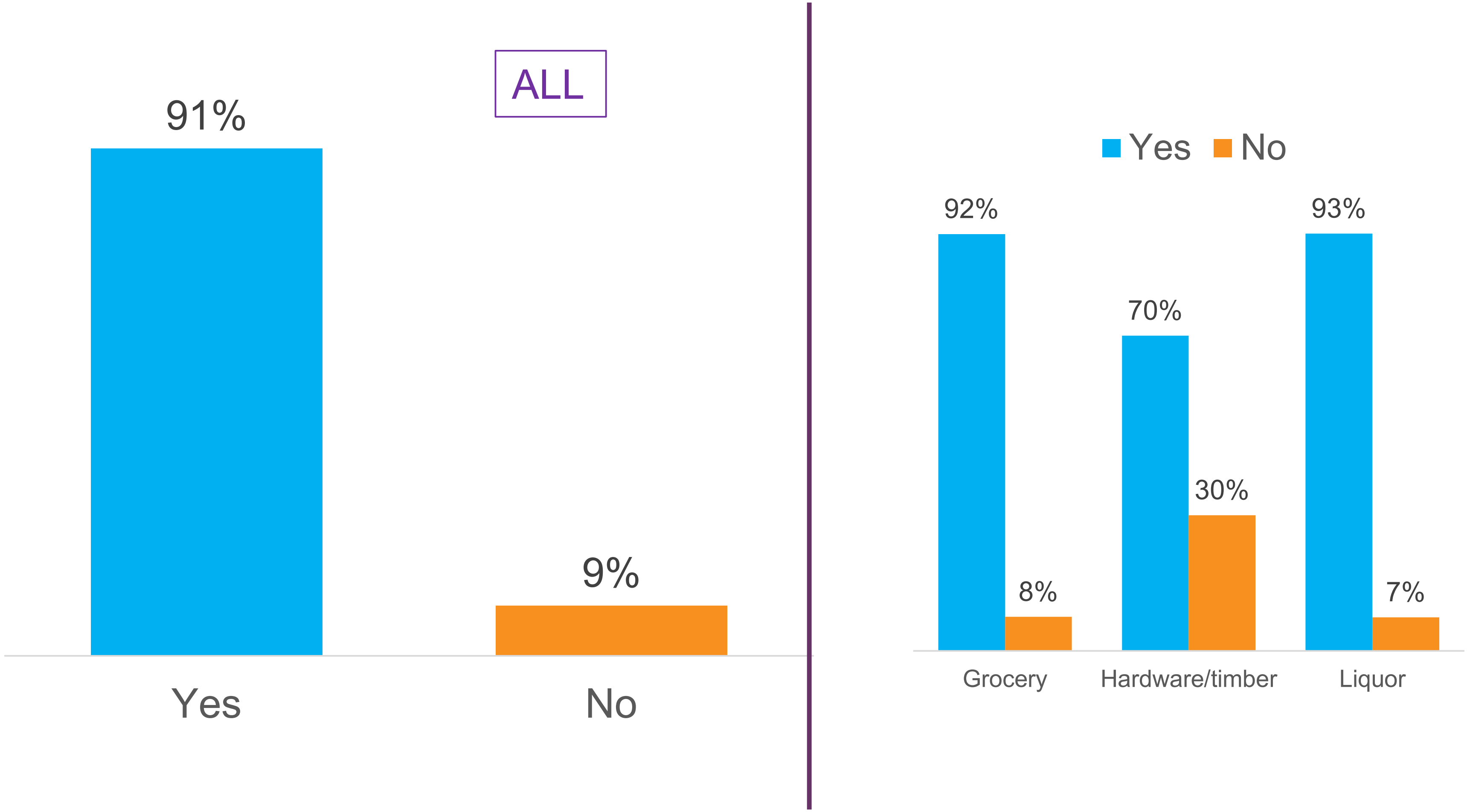
For employees' pay, do you operate under:

	An enterprise agreement	An award and decisions made by the Fair Work Commission	Individual agreements	Unsure
All	17%	80%	3%	0%
Grocery	17%	80%	3%	0%
Hardware/timber*	17%	73%	10%	0%
Liquor	16%	80%	3%	1%
A sole owner of one store/outlet	12%	84%	4%	0%
A joint owner of one store/outlet	18%	76%	4%	1%
A sole owner of more than one store/outlet	10%	90%	0%	0%
A joint owner of more than one store/outlet	31%	69%	0%	0%
A full-time manager but not owner of the store you work in	32%	68%	0%	0%

Survey Findings

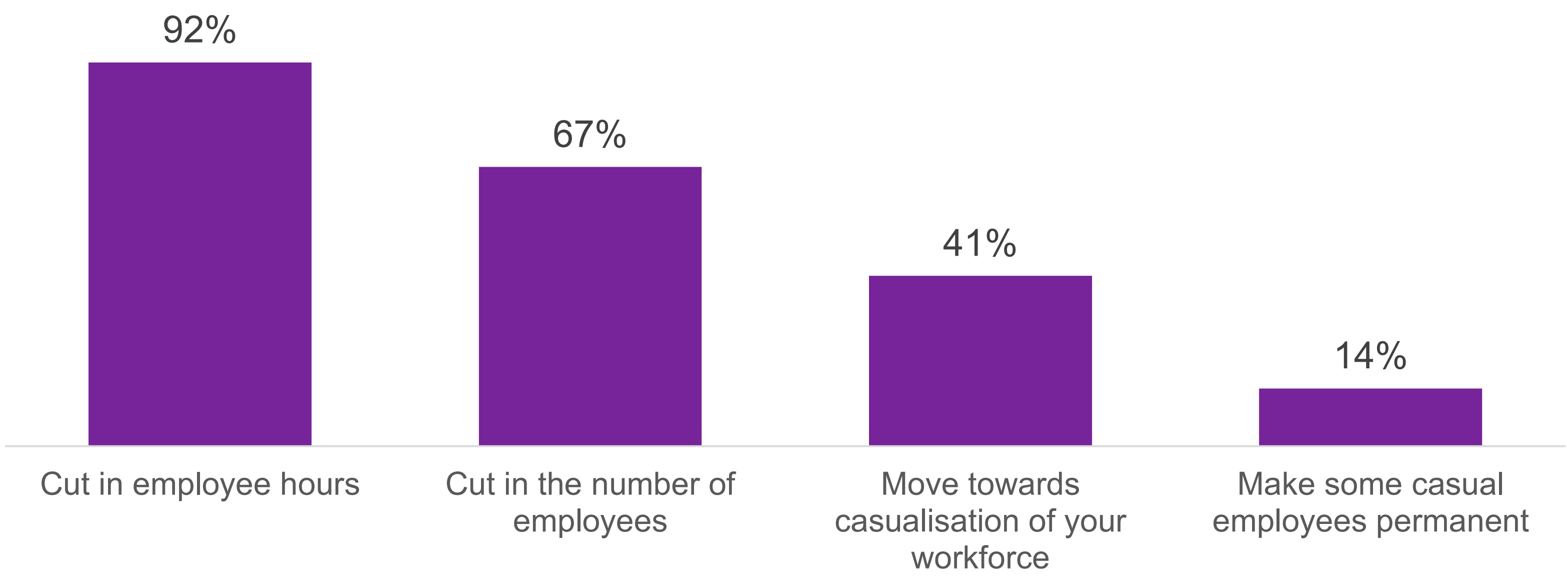
Minimum wage increases have affected employment in stores of 91% of owners or managers, less in hardware

Have increases in the minimum wage had any effect on employment in your store?



92% have cut employee hours; two thirds have cut employee numbers

[If last question = Yes, ask] What have those effects been? Select all that apply to your store



	Cut in employee hours	Cut in the number of employees	Move towards casualisation of your workforce	Make some casual employees permanent
Grocery	93%	67%	41%	14%
Hardware/timber*	76%	68%	32%	23%
Liquor	94%	67%	46%	19%

Base: the 91% who said minimum wage rises have impacted their stores

Respondent comments – difficult economic environment, wage rises invariably end up hurting staff as well as store owners

Is there any comment you would like to make on how increases in the minimum wage have impacted the number of employees or the terms under which you employ them in your store? If there is something you would like the Fair Work Commission to know relating to the next minimum wage decision, comment here.

Several recurring points

- Profits/margins for smaller stores under pressure or falling
  - Economy slow, retail generally weak. Drought having damaging impact in many regional areas
  - In many areas, especially regional, Coles' or Woolworths' presence has increased, often with extended trading hours. Growth of Aldi affecting many areas too
  - Coles and Woolworths are cutting costs with automation
  - No scope for smaller stores to increase prices, have to remain competitive

- Wage increases worsen an already difficult business environment

- Wage increases necessitate compensatory cuts
  - Reduced staff numbers
  - Reduced staff hours
  - Employ younger, cheaper but less experienced staff. Hurts older employees in particular
  - Owners work more hours, damaging their family life. Some can work up to 16 hours a day 7 days a week
  - Some stores close more often, especially at times when penalty rates are payable

- Easier to cut staff wage costs than other major expenses like rent, electricity or waste removal
  - But service quality declines
  - Most can't but a few stores are considering automation

Quotes from respondents

For us to have a Sunday off or wages for an employee exceeds $500.00 for the day.

Wage increases have impacted on our ability to keep offering staff more work. The cost of doing business is increasing in all areas whereas product prices are flat or falling because of increased competition

We have made casual job cuts and also reduction in all staff hours worked. We have budgets for wages and cannot let these blow out

As wages increase we are forced to reduce our staffing to maintain margin as we often cant increase our prices due to nearby competition from Woolworths, Coles ,and Aldi. We are also having to do more hours ourselves and my wife and I are now working 7 days a week. The net result is we as owners work harder and longer hours and our employees get less working hours

WE DONT WANT TO GO IN A STAGE WHERE WE WOULD HAVE TO INTRODUCE SELF CHECKOUTS. WAGES ARE INCREASING AND PROFITS ARE DECREASING DUE TO PRICE WARS WITH BIG CHAINS

Labour and rent are increasing every year while we are lowering the retail gross profit margin to compete with the big supermarkets

Small business is only marginally profitable and wage costs are the easiest for us to reduce. Therefore, with each added wage related impost we have to adjust our trading hours and staff numbers

The increases over the past 3 years have added over 10% to our annual wage cost and the outrageous increases in penalty rates after 6pm Mon - Friday, plus the higher rate on Saturdays far outweighed any reductions on the Sunday and PH rates

WITH THE RISE IN WAGE INCREASES I HAVE FOUND MYSELF WORKING 7 DAYS A WEEK AS I CAN'T AFFORD TO PAY FOR MORE STAFF. OVER THE PAST 12 MONTHS I FIND MYSELF A VERY TIED, CRANKY PERSON TO BE AROUND AS I AM ALWAYS TIED (sic) AND UNHAPPY. MY HUSBAND WANTS US TO SELL THE BUSINESS JUST TO TAKE ALL THE STRESS OFF ME AS HE DOESN'T LIKE THE PERSON I HAVE BECOME. IT ALSO HAS AFFECTED MY CHILDREN AND STAFF AS I CAN'T DO EVERYTHING I SHOULD BE DOING, LEAVING THINGS VERY UNTIDY AND MISSING OUT ON FAMILY TIME AND SOCIAL EVENTS

We are fighting increased costs at a time when sales have been adversely effected by the introduction of Aldi into the WA. As wage increases exceed sales growth, we have no alternative but to reduce shifts and staff numbers

THE BIGGER OPERATORS ARE MAKING IT SO COMPETITIVE AND EVEN MOVING INTO REGIONAL AREAS WITH EXTENDED TRADING HOURS. VERY DIFFICULT TO DO BUSINESS - WISH SOMEONE WOULD REALLY LISTEN TO U

We focus on hiring younger, cheaper staff. So rather than employ more experienced people we would train school or uni students for the same roles. On weekends we hire younger, cheaper staff, compromising the quality of service, that more experienced staff would provide.

We will employ less staff which then affects the time we as owners will spend with our children as we will need to cover the hours to reduce wages. Each time there is an increase to the minimum wage we have to revisit our wages budget, reduce our senior staff hours and use junior staff as much as possible. It is a difficult economy at the moment and our bottom line is not keeping up with wage increases

We have been in business for 40 plus years with a high retention on employees with the average staying for 15years plus, this has declined dramatically as we can't offer them the hours they need or the permanent position the require for their own security, which is understandable. We have multiple employees that work more than one job for this reason also. We live in a rural and remote country town which is trying to withstand the most devastating drought in history and have been for 5 years now another increase in wages will again change the dynamic of how we run the store. It will mean less staff again and less service we provide

Retail is struggling and every time there is a wage increase we have to cut hours and the number of staff on quieter days. Any further wage increases will dramatically impact on our ability to provide enough hours for our workers

The only logical move can be made is to cut the workforce even more which leaves a big hole in customer satisfaction. Otherwise there is no way a business can sustain all government charges, power, wages, competition, rent, etc. to keep going. Its just another kick in the guts

To demonstrate the impact of wage increases on your business in the last three financial years, can you indicate how the following things have changed in your store over the past three years:

In 2017, 73% saw owners/family work more hours because of wage rises; in 2019 it's 92%. Median extra hours worked has risen by 16 or more

To demonstrate the impact of wage increases on your business in the last three financial years, can you indicate how the following things have changed in your store over the past three years:

A: The number of additional hours per week worked by owners and family instead of employees

	No additional hours	1 to 5 hours	6 to 10 hours	11 to 15 hours	16 hours or more
2017	27%	31%	20%	7%	15%
2018	9%	18%	31%	20%	23%
2019	8%	8%	14%	13%	56%

Medians in blue

Staff numbers have dropped. The percentage employing 10 or less lifted from 32% in 2017 to 35% in 2018 to 41% in 2019

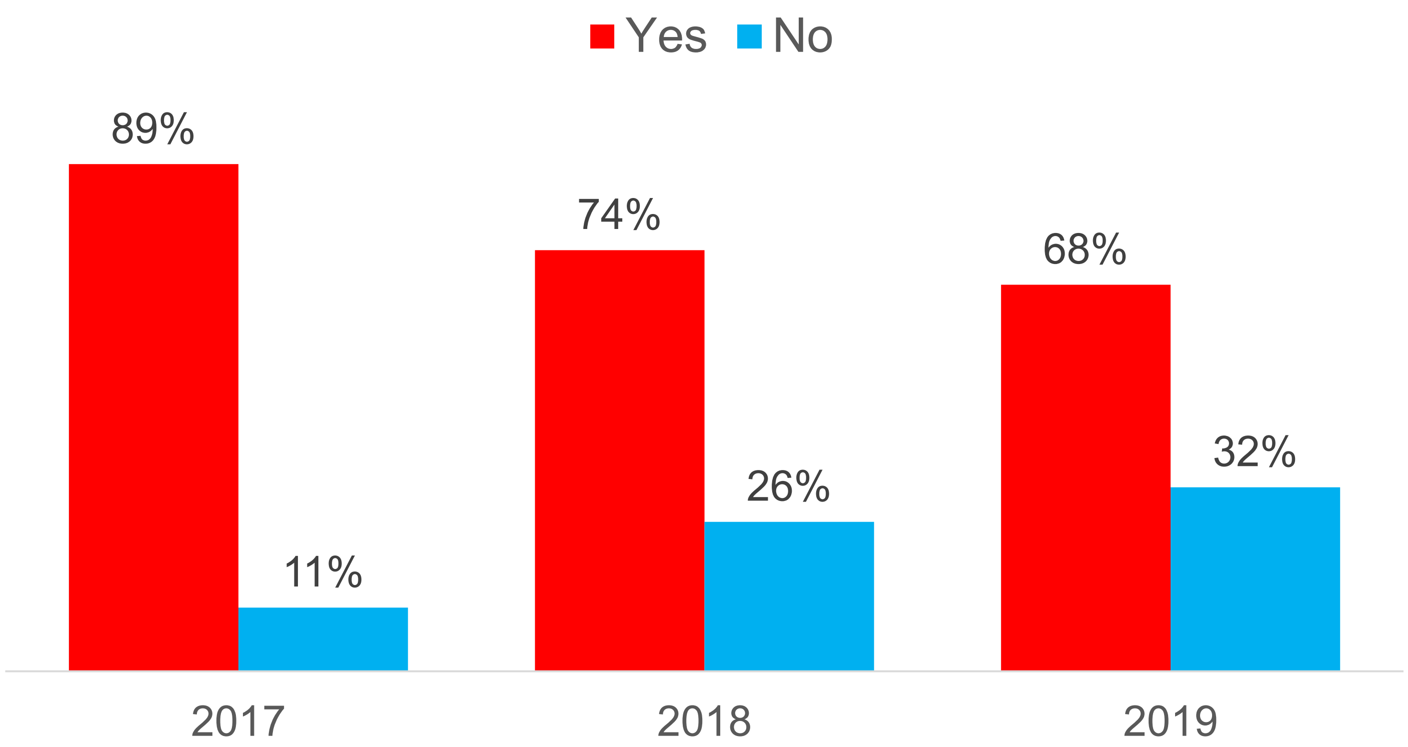
B: How many FT, PT and casual staff did you employ (total heads)?

	1 to 5	6 to 10	11 to 15	16 or more
2017	15%	17%	11%	56%
2018	17%	18%	16%	48%
2019	22%	19%	11%	48%

Medians in blue

Big majority of stores have not offered permanent employment because of wage rises. Percentage of stores has reduced but still 68%

C. Did you not offer any employees permanent employment where you would have if wage increases had not been imposed by the Fair Work Commission?



Percentage reducing trading hours has lifted from about 1 in 10 to 3 in 10 since 2017

D. Have you reduced store trading hours per week, if so by how many hours?

	Not reduced trading hours	1 to 5 hours	6 to 10 hours	11 to 15 hours	16 hours or more
2017	90%	8%	2%	0%	0%
2018	78%	17%	3%	1%	0%
2019	71%	19%	8%	1%	1%

Stores that reduce trading hours usually balance turnover with wage costs and close when the ratio doesn't hold up

F. [Ask if said reduced trading hours in D] You said you reduced weekly trading hours. Can you comment on why and on which times you stopped trading?

- They close more often, usually at times when wages exceed or go close to exceeding gross (pre-wage) profits
  - Commonly mornings and evenings and weekends when penalty rates are payable. Many shave 30 minutes or an hour off each
  - Public holidays – several no longer open at all or do so for two or more hours less
- Some owners work more hours themselves to avoid reducing trading hours

Base: the 10% to 19% who said they have reduced store trading hours

Quotes from respondents

Opened later and closed earlier. Traded only at the peak trade times as wages were higher than gross profit on those hours. Closed on public holidays or operated stores ourselves or with family as wages far exceed any gross profit on those days

Close store 1 hour every day early outside of Christmas trade to save wages

Reduced Opening Hours Saturday & Sunday (11 back to 8.5) Earlier closing weekdays: 7:00 p.m. back to 6:00 p.m. Why: To reduce total salary costs which in turn allows retention of existing staff

We cut one hour 4 days, Sunday, Monday, Tuesday and Wednesday. To save wages on the slowest part of the week. I am planning to close the shop at 8 pm instead of 8.30 Mon to Sat. Just can't afford overtime after 6 pm

We close at 7 pm Sunday instead of 8pm. We used to trade until 8.00pm. Then we went to closing at 7pm over winter until daylight savings started. However, for the past 2 years we could not justify the wages to do so and have decided to maintain closing at 7pm all year round

We reduced our closing time by half an hour per day during the week. This was to save wages

We started by reducing our trading hours on a Sunday to alleviate financial pressure caused by increased penalty rates, when Fair Work introduced extra penalties for casual staff starting work before 7.00am we then did a business analysis to assess the viability of trading an hour later to alleviate once again another penalty imposed on small business. So we now open an hour later on Sundays and close an hour earlier on Sundays. We have also started trading an hour later every other day Mon-Sat for the same reason.

Open later to minimise penalty rate costs & closed earlier for same reason

The number of stores closing on more days than in the previous year has risen from 6% to 18% since 2017

E. Have you closed your store on more days than in the previous year?
If so, by how many days per year?

	Not closed on more days than previous year	1 to 5	6 to 10	11 to 15	16 or more
2017	94%	6%	0%	0%	0%
2018	84%	14%	1%	0%	0%
2019	82%	15%	2%	1%	0%

Australians overwhelmingly believe in healthy competition – benefits consumers and society

G. [Ask if said closed store on one or more days than in previous year in E] You said you close your store on more days than before. Can you comment on why and on which days have you stopped trading?

- Again, the days depend on the ratio of net turnover to wages
  - Many now close on Christmas Day, Good Friday and/or Anzac Day
  - Several close for all public holidays, including Grand Final Eve holiday in Victoria
  - Some now close on Sundays
- Among members with more than one store, some owners and their families work on these days in one store but close others

Base: the 6% to 18% who said they have closed their store on more days than the previous year

Quotes from respondents

We have now stopped trading on public holidays as staff costs of over $50/hr to stand at a till and sell products with a 20% markup can not be justified

Public Holidays it wasn't worth opening and paying higher wages when the larger supermarkets Coles and Woolworths were open on these days

As of this year 2019, I will close my store on Christmas day and New Years day. Who can pay $55 plus super to open on these days. At this point it is simply a community service to open so I would rather have the day off now, not pay staff and keep my stock.

Closed due to wages exceeding gross profit. Particularly on public holidays.

Do not open large shore on public holidays even if able to by legislation. All public holidays are 7am to 4pm instead of 7am to 7pm and boxing day . Penalty rates are to high . No seniors work on these days

Public holiday and Sunday rates are big concern!!! We land up paying more in wages if we trade on these days

We haven't opened on some public holidays because I can't afford to pay employees and we can't manage alone

We have cut hours of trade on public holidays. Which gives my staff less hours. I also work these days and give the hours to juniors as I can't afford the wages

Anzac Day, Easter Sunday and Monday

Ceased Sunday trading -Not enough trading to warrant trading, paying higher wages on Sunday

Mainly public holidays, when we don't charge customers extra on holidays and pay penalty rates for staff public holidays we lose money by opening the shops

public holiday rates are not worth paying to staff as margins do not cover the expenses

Majority report sales turnover of $1-$5 million. Numbers steady over the 3 year period

H. What is your sales turnover?

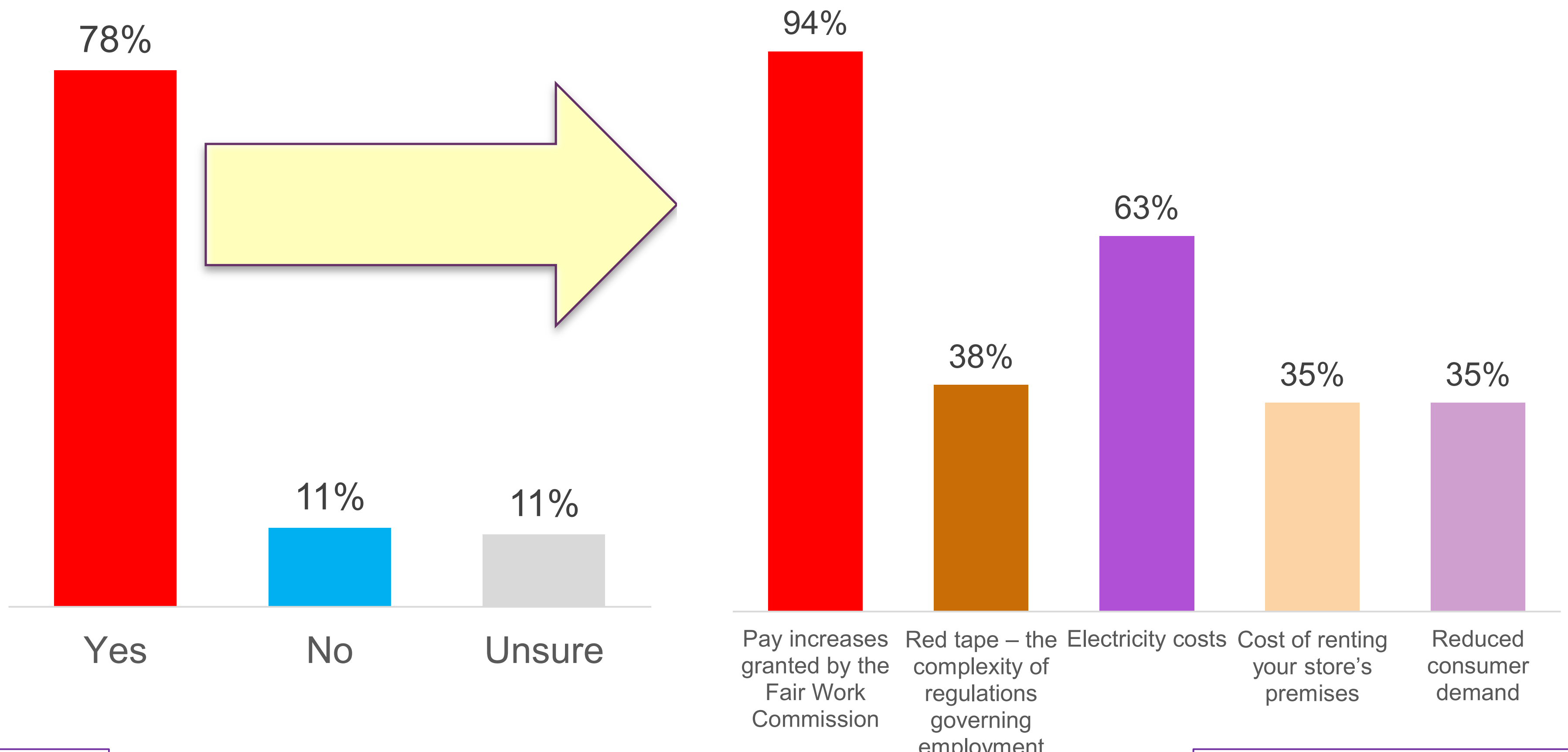
	Less than $1 million	$1 – $5 million	$6 – $7 million	$8 – $12 million	$13 million or more
2017	6%	53%	12%	14%	15%
2018	5%	53%	12%	14%	15%
2019	5%	52%	13%	14%	16%

Medians in blue

2019	Less than $1 million	$1 – $5 million	$6 – $7 million	$8 – $12 million	$13 million or more
Grocery	4%	53%	14%	14%	15%
Hardware/timber*	13%	39%	5%	14%	29%
Liquor	4%	50%	13%	15%	18%

78% say annual hours worked by employees has dropped in the last 3 years. Main reason is wage increases, followed by electricity costs

Have the annual hours worked by employees in your store reduced over the last 3 years? [If yes, ask] Which of the following were causes of this reduction in employee hours? Select all that apply



Base: All

Base: the 78% saying "yes"

Wage rises and electricity have hit grocery and liquor stores especially hard; timber stores report a greater fall in demand

Have the annual hours worked by employees in your store reduced over the last 3 years? [If yes, ask] Which of the following were causes of this reduction in employee hours? Select all that apply

	Reduced annual hours worked by employees	Pay increases granted by the Fair Work Commission	Red tape – the complexity of regulations governing employment	Electricity costs	Cost of renting your store's premises	Reduced consumer demand
All	**78%**	94%	38%	63%	35%	35%
Grocery	**79%**	95%	39%	64%	34%	33%
Hardware/timber*	**62%**	74%	36%	46%	24%	45%
Liquor	**79%**	94%	36%	67%	31%	28%

Base: All

Base: the ones saying "yes"

70% say pay increases have been the main cause of business costs (fewer, 55% in hardware) and 23% name it as the second greatest cause

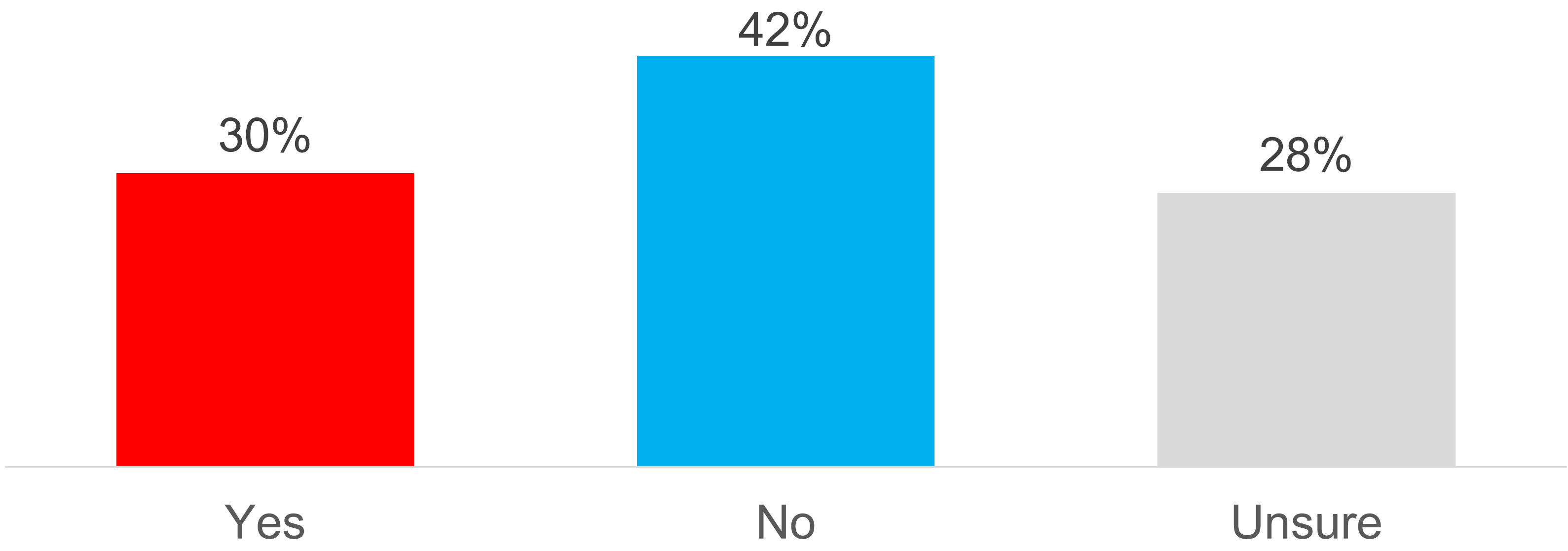
Thinking of cost increases in your business over the last 3 years, please rank the following 1 to 4, where 1 = the one that caused the greatest increase and 4 = the one that caused the smallest increase:

	1	2	3	4
Pay increases granted by the Fair Work Commission	**70%**	23%	6%	2%
Red tape – the complexity of regulations governing employment	4%	21%	40%	34%
Electricity	20%	42%	29%	10%

	Pay increases granted by the Fair Work Commission	Red tape – the complexity of regulations governing employment	Electricity	Rent of premises
Grocery	**72%**	3%	20%	5%
Hardware/timber*	**55%**	13%	25%	7%
Liquor	**69%**	3%	22%	6%

30% are considering mechanisation to replace employees

Are you considering increased mechanisation/automation to replace employees?



	Yes	No	Unsure
Grocery	30%	43%	27%
Hardware/timber*	25%	41%	33%
Liquor	30%	44%	25%

23% say more than 50% of staff have asked for extra hours; in another 21%, over 30% have made same request. Especially common in grocery stores

In the past two years, what proportion of your staff have asked for extra hours?

	None	1% to 10% of staff	11% to 20%	21% to 30%	31% to 50%	More than 50% of staff
All	**8%**	**20%**	**15%**	**13%**	**21%**	**23%**
Grocery	8%	18%	15%	13%	21%	24%
Hardware/timber*	18%	37%	5%	4%	20%	16%
Liquor	9%	20%	19%	11%	21%	18%

Medians in blue

81% have been unable to provide extra hours for all or over half those who asked for it

[If yes, ask] Have you been unable to provide any additional hours to any staff who requested more work?

	Yes, unable to provide more work to all who've asked for it	Yes, unable to provide more work to more than half who've asked for it	Yes, unable to provide more work to less than half who've asked for it	No
All	**42%**	39%	13%	6%
Grocery	44%	40%	11%	6%
Hardware/timber*	26%	37%	22%	15%
Liquor	36%	48%	8%	8%

Base: Those whose staff have asked for extra hours, being 92% overall, 92% of grocers, 82% of hardware stores and 91% of liquor stores

Virtually all staff asking for extra hours want more money; 7% want more experience

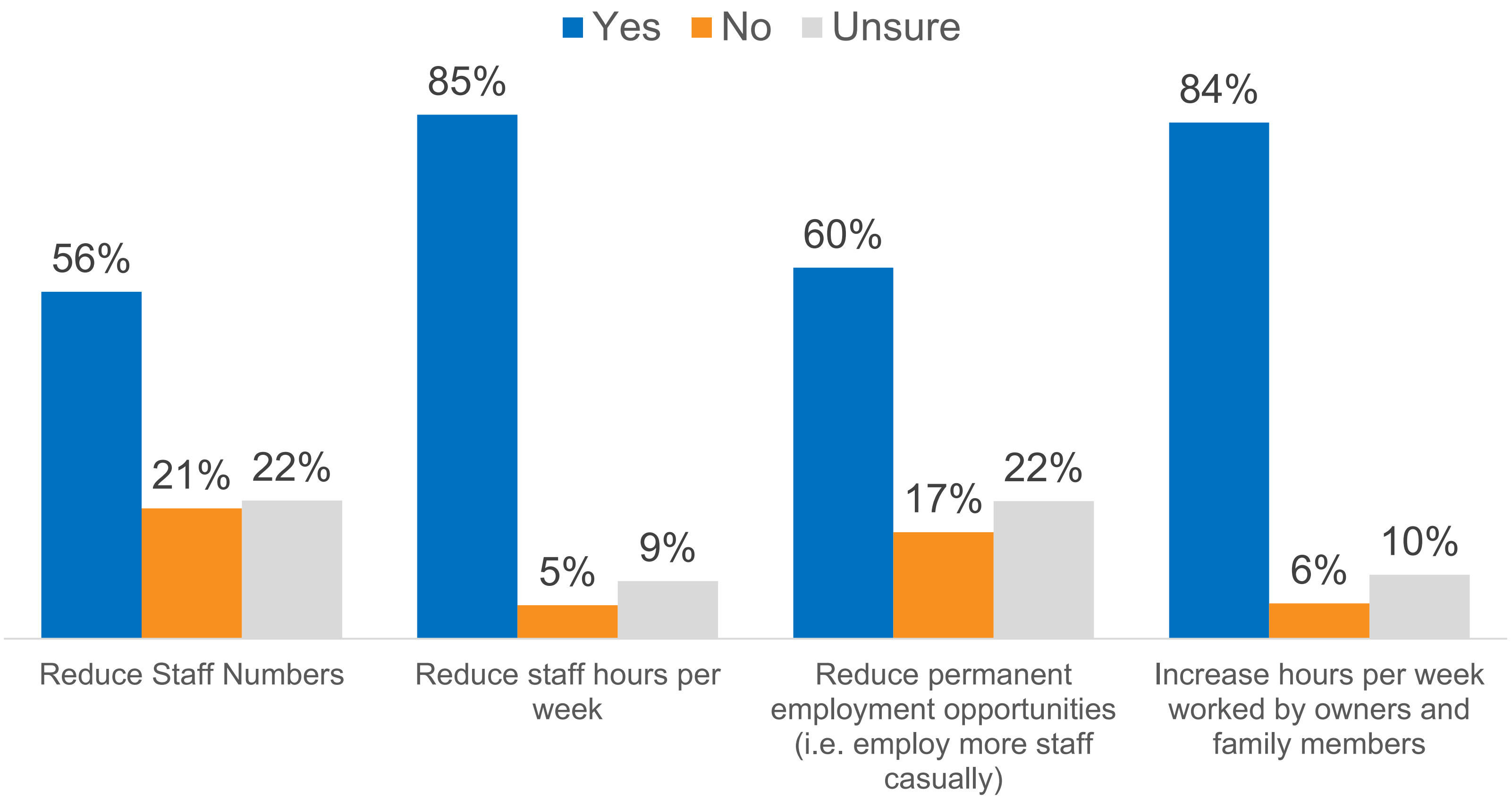
(If yes, ask] Which of the following are reasons why the staff wanted extra hours? Select all that apply

Base: Those whose staff have asked for extra hours, being 92% overall, 92% of grocers, 82% of hardware stores and 91% of liquor stores

If the Fair Work Commission grants another pay increase of 3%, what would be the most likely impacts, if any, on employment in your store in 2020? Would you?

If wages rise by another 3%, 85% would reduce staff hours, 60% would employ more casuals and 56% would reduce staff number. Owners and families would replace workers

[If the Fair Work Commission grants another pay increase of 3%, what would be the most likely impacts, if any, on employment in your store in 2020? Would you?



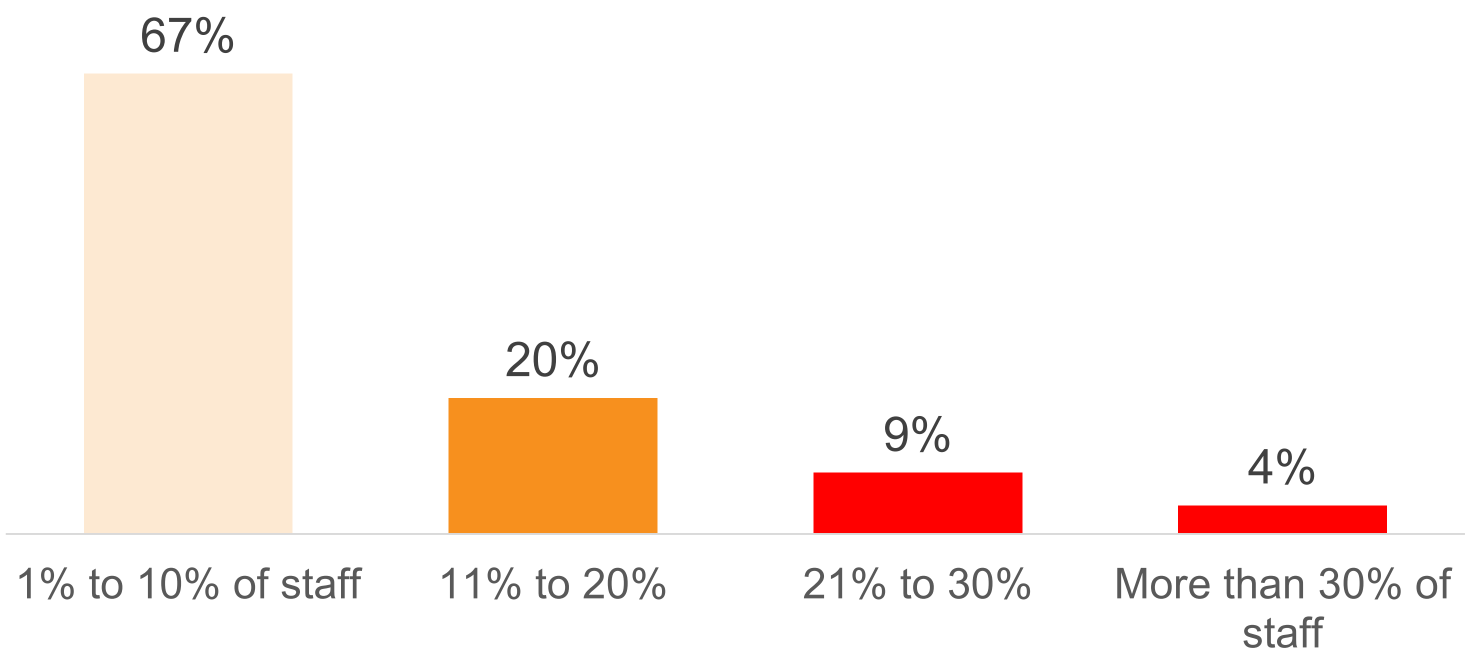
Grocery and liquor stores give similar responses. Hardware/timber report less change

% saying YES to each	Reduce Staff Numbers	Reduce staff hours per week	Employ more staff casually	Increase hours per week worked by owners and family members
All	56%	85%	60%	84%
Grocery	59%	87%	61%	84%
Hardware/timber*	39%	62%	32%	74%
Liquor	51%	85%	66%	87%

33% of stores saying they'd cut staff numbers would cut more than 10% of their staff

56% said they would reduce staff numbers

[If yes, ask] What percentage of staff numbers do you expect you would cut?



Base: The 56% who said they'd reduce staff numbers if there were another 3% increase in wages

Of those saying they'd reduce staff hours, 28% say by more than 21 hours a week. Median is 11 to 21 hours

85% said they would reduce staff hours per week

[If yes, ask] How many hours do you expect you would cut per week?

	1 to 10 hours	11 to 20 hours	21 to 30 hours	More than 30 hours
All	37%	36%	12%	**16%**
Grocery	35%	37%	12%	15%
Hardware/timber*	58%	13%	4%	25%
Liquor	40%	34%	12%	14%

Base: The 85% who said they'd reduce staff hours if there were another 3% increase in wages

Of those who said owners/family would work more hours, 59% estimate this will be over 11 hours a week

84% said they would increase hours per week worked by owners and family members

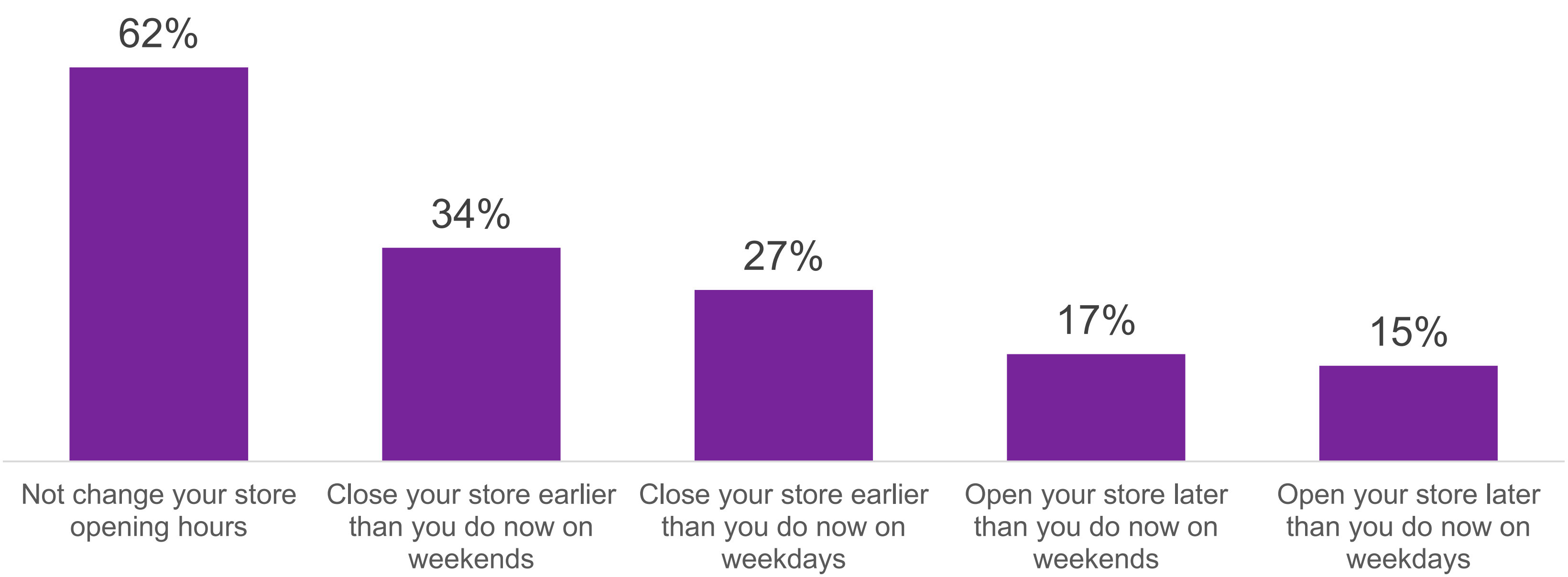
[If yes, ask] By how many hours per week?

	1 to 10 hours	11 to 20 hours	21 to 30 hours	More than 30 hours
All	41%	35%	13%	**11%**
Grocery	40%	36%	14%	11%
Hardware/timber*	72%	16%	3%	10%
Liquor	45%	31%	13%	11%

Base: The 84% who said they'd increase hours per week worked by owners and family members

38% would reduce store opening hours, most commonly closing earlier on weekends and/or weekdays

Do you expect you would (if there is another 3% wage rise)? Select all that apply



	Not change your store opening hours	Open your store later than you do now on weekdays	Open your store later than you do now on weekends	Close your store earlier than you do now on weekdays	Close your store earlier than you do now on weekends
Grocery	62%	16%	18%	29%	33%
Hardware/timber*	78%	3%	9%	8%	34%
Liquor	57%	15%	16%	33%	37%

Base: All

MASTER GROCERS AUSTRALIA LIMITED

Document 'B'

REPORT BY PROFESSOR PHIL LEWIS, DIRECTOR

CENTRE FOR LABOUR MARKET RESEARCH

Commissioned by

MGA/TMA

November 2019

the CENTRE for LABOUR MARKET RESEARCH

MGA Independent Retailers Survey:
a report to the Master Grocers Association (MGA) to inform the Fair Work Commission on the impacts of rises in the minimum wages on MGA businesses

by

Prof Phil Lewis

Director, Centre for Labour Market Research

EXECUTIVE SUMMARY

This report provides an analysis of a survey conducted in October/November 2019 which aimed to obtain business owners/managers opinion on areas of costs of operating a business which affect business performance.

Given the lack of empirical evidence on the impact of minimum wages on employment, the survey sought to seek the views of actual retail businesses of their experience of adjustment to previous minimum wage increases. These businesses were also asked how they would adjust to a further increase in the minimum wage in 2020. Responses were also sought on other issues affecting costs, particularly, red tape.

It is hoped that the results will provide evidence to the Fair Work Commission on how past increases of the minimum wage have impacted on the number of employees or the terms under which they are employed in MGA member stores and the impacts of any future wage rise is likely to have.

The survey was sent to all MGA members (grocery, liquor and timber/hardware). No members were excluded from the process. The survey fieldwork ran from 24th October to 20th November 2019.

The findings of the survey strongly support the economic theory that in response to an increase in wage costs businesses will reduce their demand for labour by reducing employment of hired labour and changing the structure of employment in favour of family labour, cheaper hired labour (such as juniors), increasing labour flexibility or some combination of these adjustment processes. Also, reduced output (through fewer trading hours) for many is a possible option. In the longer term businesses may seek to replace labour by capital through automation. The results of the survey are presented below.

1. The economic environment for stores has been worsening due to:

- Flat consumer demand
- The expansion of major supermarket chains, Coles, Woolworth and Aldi, especially into many regional areas. Typically, they open for extended hours and have high cost competitiveness, due in part to being more automated and less labour dependent than smaller grocery retailers. The business model of smaller grocery retailers places more emphasis on personal service.

2. The impact of wage increases on employment in stores owned by MGA members over the past three years has been considerable and this will continue if another wage rise of similar magnitude to those of the past three years is granted by the Fair Work Commission during 2020.

- Most, 91 percent of MGA members, say minimum wage increases have affected employment in their store or stores. Of this 91percent:
    - 92 percent report cutting employee hours
    - 67 percent have cut the number of employees
    - 41 percent have increased casualisation of their workforce

3. Hours worked by employees in their stores has fallen over the past three years

- 78 percent of members say the total annual hours worked by employees in their stores has fallen over the past three years. 94 percent of them attribute at least part of this to pay increases granted by the Fair Work Commission. The other major cause is increases in electricity costs, stated by 63 percent. Compliance or red tape, rental costs and reduced consumer demand have also been blamed by just over one third of members.

4. Pay increases granted by the Fair Work Commission have been the main cause of increased business costs over the last three years

- 70 percent of members report increases in award have been the main cause of increased business costs over the last three years. Another 23 percent name it second, mostly behind electricity.

5. Wage increases are adding to the economic pressure. For most, this is necessitating compensatory changes to minimise the effect on their wage bills.

- Usually this involves cutting staff numbers or hours, employing more younger, less experienced staff (which often diminishes service standards) or having owners or family members work more hours instead of paid employees.
- Many stores have also reduced trading hours or close on more days of the year.
- 30 percent of MGA members now report considering more automation to replace employees.
- It is easier to cut wages than other major expenses such as rents, electricity or waste management costs. These other costs offer very little scope for flexibility.

6. Store owners/managers provided detail about changes that have occurred during the past three years, from 2017 to 2019:

- The percentage of stores in which extra hours are being worked by owners or their families instead of employees compared to the previous year rose from 73 percent in 2017 to 92 percent in 2019. In more than half of these stores in 2019, owners and their families worked at least 16 hours more than they did in 2018.
- The number of staff employed by stores has dropped. In 2017, the percentage of stores employing 16 staff or more stood at 56 percent; by 2019 it dropped to 48 percent. Similarly, the proportion of stores employing between only one and five employees has risen from 15 percent in 2017 to 22 percent in 2019.
- Most stores have not granted permanent employment to employees because of wage increases.
- In 2017, 10 percent of stores report having reduced their trading hours. This increased to 29 percent in 2019. Again, many owners work more hours themselves to avoid reducing trading hours.
- Similarly, the number of store owners/managers who say they closed their store on more days than in the previous year has risen from 6 percent in 2017 to 18 percent in 2019.

7. If another significant wage rise is granted by the FWC:

- 85 percent of store owners/managers say they would reduce staff hours per week, the median reduction being between 11 and 20 hours with an average of 16 hours per week
- 60 percent say they would employ more staff casually
- 56 percent indicate they would reduce staff numbers, with one third of these saying the cut would be more than 10 percent of staff numbers
- 84 percent say they themselves or their families would work more hours per week, the median being between 11 and 20 extra hours with an average of 14 hours per week
- 38 percent would reduce their trading hours, most commonly closing earlier on weekday and/or weekends. Some would also open their stores later than they do now.

As is evident from the survey results, to the extent that past increases in the minimum wage above the rate of inflation have been granted, there have already been negative effects on stores operated by MGA members, their employees, their families, customers and communities. Further rises above CPI would be expected to exacerbate these negative effects.

Apart from the issues facing stores but there are wider effects which should be considered. Among these are the impact of lower employment in stores on the rest of the community. Local supermarkets are important sources of jobs, particularly in regional Australia. Less paid work available has flow-on effects to others, including families and other businesses. Reduced trading by stores reduces demand for local food producers and suppliers. These effects limit the ability of these communities to survive and grow.

The employment effects are likely to have a disproportionately large impact on younger employees. Casual employment is of major importance in providing jobs for young people and especially for those wishing to finance study. Without the employment opportunities provided by grocery stores, participation in tertiary education would be less and the accumulation of human capital for both individuals, and for the economy, would be reduced. In addition, casual and part-time work can provide a ‘‘stepping-stone’ for welfare recipients into stable employment and reduced employment opportunities will reduce the ability of young workers to take this step.

The above negative effects of unemployment and underemployment would be expected to be particularly felt in rural and regional communities, many of which are already suffering from the impacts of drought and bushfires.

Introduction

This report provides an analysis of a survey conducted in 2019 which aimed to obtain business opinion on three areas of cost of operating a business which affect performance, namely increases in award wages, red tape and the other major business costs – electricity and rent.

In particular, it is hoped that the results will provide evidence to the Fair Work Commission on how past increases in the minimum wage have impacted on the number of employees or the terms under which they are employed in MGA member stores and impacts of any future wage rise is likely to have.

The structure of the report is as follows. It begins with a summary of the economics of business owners' behaviour in response to increases in wage and other costs, in order to provide a background framework for the analysis of the results. There follows a description of the survey design and methodology. The major results from the survey are then presented. Finally, a summary of the major findings and conclusion are provided. A number of Appendices provide information on the questionnaire and more detailed general comments given by survey respondents.

Background

Economic theory regarding businesses decisions on how much to produce (or equivalently when to remain open for trade) and the amount of labour to employ is well-known (see, for instance, Hubbard *et al* 2019). Decisions are based on the expected revenue from extra trading (their marginal revenue) and the costs of producing (selling) that extra output (their marginal cost). Importantly, this decision depends only on the *extra (marginal)* revenue and cost.

A large component of a business's total costs is fixed over the short term and are not relevant to this decision making. For instance, the rent on the business premises is independent of how much is traded and must be paid whatever the amount sold by the business. Most of the cost of electricity (such as for refrigeration and lighting) must be borne by the business at all times no matter how much is traded. Part of the electricity bill does vary with output since it may be necessary to use more when the store is open than when it is closed but most is a fixed cost.

Over a longer period of time businesses can vary the short-run fixed costs by changing the size of their store, negotiating rental contracts, move to a different location or closing down the business altogether. Adoption of new technologies may improve productivity and profitability in the longer term. Reduced profitability, due to cost increases, reduces the business's own funds available for investment and the capacity to borrow from the banking sector.

First, it is instructive to examine the costs structure of the retail sector. Table 1 shows the most recent Australian Bureau of Statistics (ABS 2014a) for retailing in Australia.

Table 1 Retail industry, Australia, 2012-13

		Food Retailing	**Other store-based Retailing**
Employment			
Working proprietors and partners of unincorporated businesses	no.	9,982	23,110
Employees	no.	406,574	662,773
Total	no.	*416,557*	*685,883*
Income			
Sales of goods bought in and resold	$m	105,499.3	134,862.1
Service income	$m	4,678.6	8,765.3
Other Income	$m	1,793.1	3,992.0
Total	$m	*111,971.0*	*147,619.4*
Expenses			
Wages and salaries	$m	11,876.1	21,013.4
Other labour costs	$m	1,914.3	2,969.1
Purchases	$m	77,550.8	88,044.1
Payments to contractors and other businesses for freight, cartage, delivery and transport services	$m	2,046.0	1,897.0
Rent, leasing and hiring expenses			
Land, buildings and other structures	$m	3,538.2	9,430.4
Other rent, leasing and hiring	$m	202.2	793.4
Total	$m	*3,740.4*	*10,223.8*
Other Expenses	$m	8,311.8	16,973.6
Total	$m	*105,439.4*	*141,120.9*
Inventories			
Opening	$m	5,548.9	18,673.2
Closing	$m	5,945.0	19,129.7
Operating Profit before tax	$m	6,973.3	7,010.0
Operating Profit Margin	%	6.3	4.8
Industry Value Added	$m	22,035.4	33,554.0
Labour costs percentage of industry value added	%	62.5	71.5

Source: ABS (2014a), *Retail and Wholesale Industries,* Australia, 2012-13, Cat no 86220.0.

The retail trade industry, as defined in the Australia and New Zealand Standard Industrial Classification (ANZSIC) (ABS 2008), includes units mainly engaged in the purchase and/or on selling of goods, the commission based buying of goods, and the commission based selling of goods, without significant transformation, to the general public. The sector consists of sub-divisions of businesses facing quite different business conditions, ranging from petrol retailing dominated by major firms and selling mostly necessities, with no major players selling luxury items. The major drivers of demand are household disposable income and consumer confidence.

Table 1 provides summary data on the retail industry for the two sub-divisions most relevant here, namely Food Retailing and Other Store-Based Retailing. The most relevant to most stores in the survey are the first of these but for hardware stores the second sub-division might be more relevant.

In 2012/13 the Food Retailing industry generated $112 billion per year in revenue and employed almost 417 thousand people. Other Store-Based Retailers generated over $147 billion per year in revenue and employed 668 thousand people. Since the retail industry is largely involved in selling of goods without significant transformation much of total expenses is made up of purchases of goods. Industry value added (the difference between total sales revenue of an industry and the total cost of components, materials, and services purchased from other firms) is made up to a large extent by labour costs (62.5 percent in Food and 71.5 percent for Other Stores).

We examine below two important and connected areas of variable costs affecting businesses - red tape and wage costs.

Red tape

Several studies of Australian businesses have pointed to the costs of complying with legislation (red tape) in hindering business performance (for instance, Lewis, Richardson and Corliss 2015a, 2015b; Banks 2006). Compliance costs fall into three general categories. The first relates to becoming aware of regulations which must be abided by. This might involve hiring particular expertise (accountants, lawyers, for example), taking part in training or having to devote time by owners or staff in educating themselves in what exactly is required under legislation and the costs of non-compliance. The second relates to the cost of actually abiding by the regulation. For instance, health and safety regulation might prescribe the purchase of special equipment such as safety guards, helmets, wash basins, first aid kits etc. The third category of costs relates to demonstrating compliance with legislation. This mostly involves record keeping, which increasingly involves computer packages but is often referred to as paperwork. The boundary between actually complying with legislation and demonstrating compliance can be somewhat blurred. The costs include hiring outside professional help devoting staff to compliance related activities or, quite likely for small businesses, the owner's own time.

Lewis, Richardson and Corliss (2015a) in a survey of Australian businesses found considerable concern among businesses regarding the amount of paperwork involved in keeping compliant and the complexity of the regulations exacerbated by various states and jurisdictions with different rules. These factors, in turn, create other problems, such as the difficulty keeping compliant with government regulation including getting staff to comply with government regulation, maintaining deadlines and understanding the requirements of government regulation.

This is not helped by poor quality or overabundance of information which needed to be sifted through to find relevant information. These factors lead to a common charge from business that government over-regulates the business sector making compliance costs greater than they need be. Furthermore, there is a common theme regarding additional regulation needed to fulfil the function of government, such as collecting taxes and superannuation payments, without any remuneration for the additional drain on the firm's resources to provide such functions.

Interestingly, industrial relations had the greatest frequency of businesses complaining about the costly nature of regulation. Businesses in the survey suggested that there was significant inequality arising from industrial relations regulation in its current form. There was a perceived inequality in the form of greater rights for the employees over the employers. Furthermore, industrial relations were regarded as considerably over regulated.

To the extent that red tape adds to the cost per person or hour employed by a business this would raise the costs of employing extra labour and hence the marginal costs of production, reducing output and demand for labour. We now consider wage costs specifically.

Wage costs

To understand the impact of labour costs on employment it is first necessary to address the question of what determines employment (and the wage paid). The simple answer is demand and supply of labour. The matter is however complicated by institutional arrangements governing employment such as legally binding minimum wages and employment conditions (awards). To the extent that a firm largely pays the award rate then wages can be regarded as determined outside their control and their relevant decision is to decide on the amount of labour to employ and how to structure their labour force.

Businesses determine the demand for labour. The demand for labour is generally thought to depend on the wage rate, or more correctly the costs of employing labour which typically includes many other costs apart from the wage including costs of red tape associated with hiring workers. Businesses' decisions about how much output to produce and how much labour to hire are made *simultaneously*. They hire extra labour when the value of the extra output produced is greater than the extra cost. They will only increase output if the extra activities are profitable. A rise in labour costs will make otherwise profitable activities no longer profitable so firms hire less people and produce less.

Isolating the impacts of changes in award wages are fraught with difficulty and is largely responsible for the lack of consensus on the employment impacts of changes to imposed wages such as awards, including minimum wages. It is very difficult to estimate the impact of minimum wage changes on labour demand since there are factors operating in the whole economy. In particular the economy had been growing very strongly for over 20 years up to 2008 and this would have been expected to have increased demand in minimum wage jobs even with increasing minimum wages. By contrast the Global Financial Crisis (GFC) and its aftermath had a negative effect on employment greater than any effect of changes in award wages such as the freeze in the minimum wage for 2009/2010. More recently, there has been considerable publicity about lack of consumer confidence and the effects of the drought; and, even more recently, bushfires across Australia.

An important characteristic of labour markets is *substitutability*. To illustrate the potential for, or even necessity of, substitution consider a hypothetical, but realistic, example. A grocery store is staffed by a number of staff with some specific duties, such as at the checkout and a range of other duties as the need arises. The owner manager does a whole range of tasks such as keeping the accounts and other paperwork, ordering and collecting supplies, hiring staff and doing virtually any of the jobs of other staff should the need arise. During most of the day any staff member will be doing their main task but at peak times, or when colleagues are on breaks, the owner or other staff members can take on different roles. Some employees with children can only work between 9am and 3pm because they need to drop off and pick up children from school. Mostly students are employed the rest of the time because they can fit work in around their classes. Students are particularly keen to work on weekends since it doesn't clash with classes while some people find weekend work clashes with family commitments. For some, however, weekend work can be ‘family friendly’ since a partner can look after children and avoid the childcare costs incurred when both partners are working during the week.

When wages rise this causes an increase in variable costs which firms must adjust to. The bigger the share of total costs which are hired labour costs then the larger the impact on firms. As we saw above labour costs are particularly high as a percentage of total variable costs in retailing and, therefore, retail businesses would be particularly sensitive to increases in labour costs. Firms will attempt to replace higher cost labour with other inputs, such as family and owner’s labour, and demand for hired labour will fall. Other measures employers might use to try to lower labour costs are replacing some adult workers with more junior workers or casualising the workforce. Their ability to do this will depend on how easily hired labour can be replaced by other inputs.

Firms may attempt to pass on the increased labour costs to buyers of their products. If demand for these products is very price sensitive, then even small cost increases cause large falls in demand for output and employment. This occurs when where there is a high degree of competition as there would be for smaller grocery firms in the industry. In this case, firms will attempt to reduce activities which are now, with the increased costs, unprofitable by cutting down on these activities, possibly by reduced hours of trading.

In the long-run firms can replace labour with capital through automation and mechanisation.

There has been much work conducted internationally which is far too voluminous to discuss here (see, for instance, Neumark and Wascher 2007, Neumark 2017) The evidence is not conclusive and still hotly debated. There is little empirical evidence for Australia and little agreement among economists. However, the FWC position appears to be:

> “… moderate and regular increases to the NMW [National Minimum Wage] and to modern award minimum wages do not cause significant job losses or reductions in hours worked.”
>
> Fair Work Commission Annual Wage Review 2017–18, para 244

Given the lack of empirical evidence on the impact of minimum wages on employment, the survey, which is the subject of this report, sought to seek the views of actual retail businesses of their experience of adjustment to previous minimum wage increases. These businesses were also asked how they would adjust to a further similar increase in the minimum wage in 2020. Responses were also sought on other issues affecting costs, particularly, red tape.

The Survey

The survey was sent to all MGA members (grocery, liquor and timber/hardware). No members were excluded from the process. The survey fieldwork ran from 24th October to 20th November 2019 and was managed by Qualtrics, a major designer and provider of research software. Out of the 1,555 survey forms sent, 319 were completed by single and multiple store owners representing over 500 stores. The raw data survey results were processed by Factuality Research.

Raw results were geographically weighted to the state and territory distribution of MGA members as different states carry different laws and practices regarding grocers, including regulations of opening hours and in Queensland, where independent grocers are barred from holding liquor licences. The sample covers grocers (mostly), grocers that also sell liquor and a small number of hardware/timber stores, all MGA members.

Note that the margin for error is +/- 5.4% at the 95% confidence level. However, when the sample is divided into sub-categories, as it is in many parts of this report, the margin for error is greater and these figures should be regarded as indicative only. For hardware/timber stores, being only 11% of the total sample (n=36), results for this category give only a very broad indication of the true figure. To a lesser extent, the same applies to liquor stores (n=123). In most tables and figures the results are given for the whole sample, reducing the margin of error.

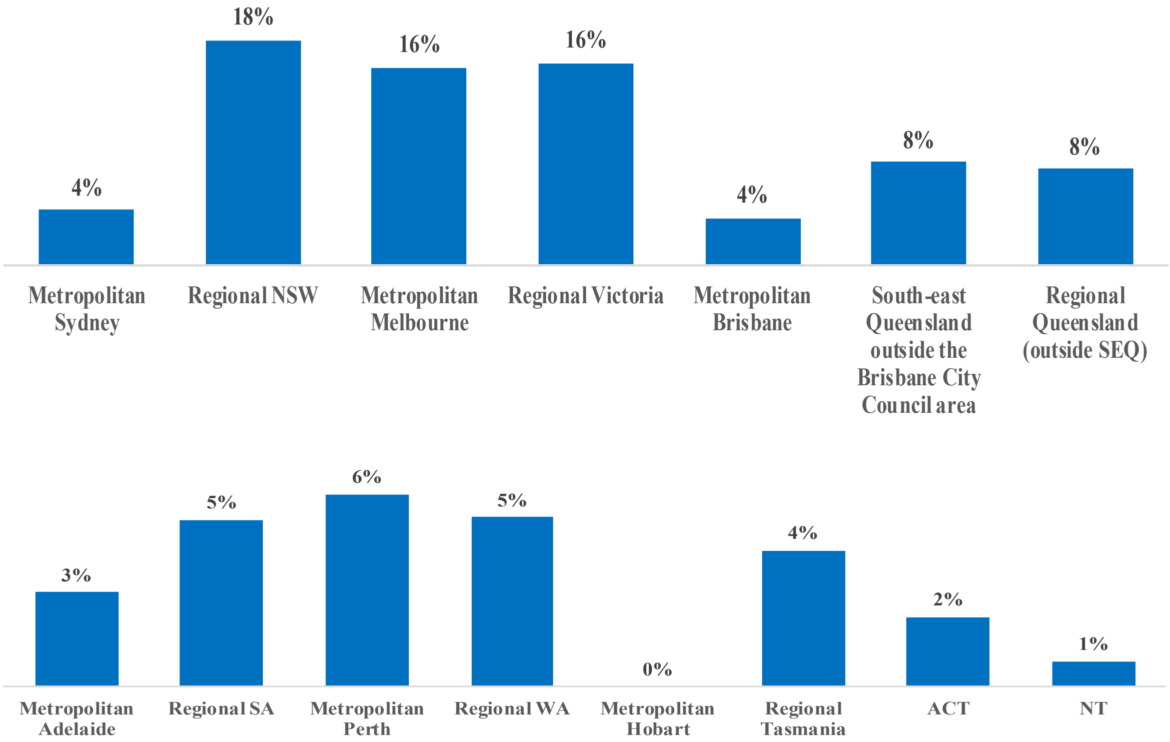
Throughout the report, except where stated otherwise, the source for tables and figure is “author’s estimates derived from the MGA Independent Retailers Survey”. Some percentages do not add to 100 percent due to rounding.

Sample Characteristics

Region

Of the stores in the sample 43 percent are located in metropolitan areas, which includes South East Queensland outside the city of Brisbane, while 53 percent are in regional Australia (Figure 1).

Figure 1: Distribution of businesses by region



Business Type

Of all the businesses in the sample, 93 percent were grocery stores, many of which also sold liquor. The remainder were stores selling solely hardware or liquor. An inspection of the data suggests there are limited differences between the types of stores. Therefore, all respondents to the survey are included to provide a reliable sample to investigate the primary questions the survey was designed to answer. Table 2 shows most (about three quarters) of the sample of respondents represent one store, either as a sole or joint owner.

Table 2: Businesses by ownership and size (number of employees)

	Number of employees				
Type of business	**15 or less**	**16 to 30**	**31 to 60**	**More than 60**	**All firms**
sole owner of one store/outlet	**37%**	**39%**	**17%**	**6%**	**47%**
joint owner of one store/outlet	**46%**	**30%**	**14%**	**9%**	**27%**
sole owner of more than one store/outlet	**23%**	**26%**	**33%**	**18%**	**10%**
joint owner of more than one store/outlet	**9%**	**12%**	**41%**	**38%**	**13%**
full-time manager but not owner of the store you work in	**0%**	**46%**	**21%**	**32%**	**2%**
All firms	**34%**	**32%**	**21%**	**13%**	**100%**

In addition, two thirds of businesses employ less than 30 employees. Therefore, most businesses fall under the ABS (2018) definitions of small (5-19 employees) to medium size (20-

199 employees) businesses. Using the Australian Tax Office (ATO 2018) definition, that is, businesses with turnover of less than $8miilion, most businesses would be classified as small businesses (see Table 5 later in the report).

Method of setting pay

Table 3: Method of setting wages by ownership type

Ownership type	enterprise agreement	award and decision made by FWC	individual agreements
A sole owner of one store/outlet	12%	84%	4%
A joint owner of one store/outlet	18%	76%	4%
A sole owner of more than one store/outlet	10%	90%	0%
A joint owner of more than one store/outlet	31%	69%	0%
A full-time manager but not owner of the store you work	32%	68%	0%
Total	17%	80%	3%

By far the most common method of setting pay is through the awards decided by the FWC. Overall, 80 percent of employees are employed under award pay and conditions. This compares to about 20 percent of all employees in the Australian labour market (DESSFB 2018). This demonstrates the particular importance of minimum wage decisions to these stores. Awards appear to be somewhat less relevant in stores where owners have more than one store or are run by managers. However, even in these stores awards are the main determinant of pay and conditions of over two thirds of employees.

Table 4: Method of setting wages by number employed

Number of employees	enterprise agreement	award and decision made by FWC	individual agreements
15 or less	7%	88%	4%
16 to 30	12%	86%	2%
31 to 60	25%	70%	5%
More than 60	38%	62%	0%
Total	17%	80%	3%

There is some evidence that larger businesses are more likely to have non-award methods of setting pay but still awards are by far the major method of setting pay and conditions.

In summary, awards and, by implication minimum wage decisions, are the most significant factor in determining wage costs in these stores and are more important than generally for other businesses in the economy.

Survey findings

Business environment

From the "open ended" questions where respondents were asked to comment on how increases in the minimum wage have impacted on the number of employees or "the terms under which you employ them in your store", there were some common themes occurring regarding the general business environment. These are summarised below and selected response comments are given in Appendix A.

The main points arising from the open-ended questions were:

Profits margins for smaller stores are under pressure or falling due to:

- the economy is slow and retail generally weak.
- the drought is having a damaging impact in many regional areas.
- in many areas, especially regional, Coles' or Woolworths' presence has increased, often with extended trading hours. Growth of Aldi is also affecting many areas too.
- Coles and Woolworths are cutting costs with automation
- there is no scope for smaller stores to increase prices since they have to remain competitive.

The comments by survey respondents echo the comments, based on both data and anecdotal evidence, including in the media, that the current trading environment for retailing, particularly small businesses, is not good. According to Commsec (2019) in 2019:

"Real spending at Supermarkets fell 0.6 per cent in the June quarter to be down 0.7 per cent over the year. It was the biggest annual decline in sales on record." Commsec (2019)

Table 5: Business turnover

Turnover	Less than $1 million	$1 – $5 million	$6 – $7 million	$8 – $12 million	$13 million or more
2017	6%	53%	12%	14%	15%
2018	5%	53%	12%	14%	15%
2019	5%	52%	13%	14%	16%

The majority of respondents reported sales turnover of $1-$5 million. The percentages have remained steady over the 3-year period indicative of a very resilient sector in the face of economic challenges.

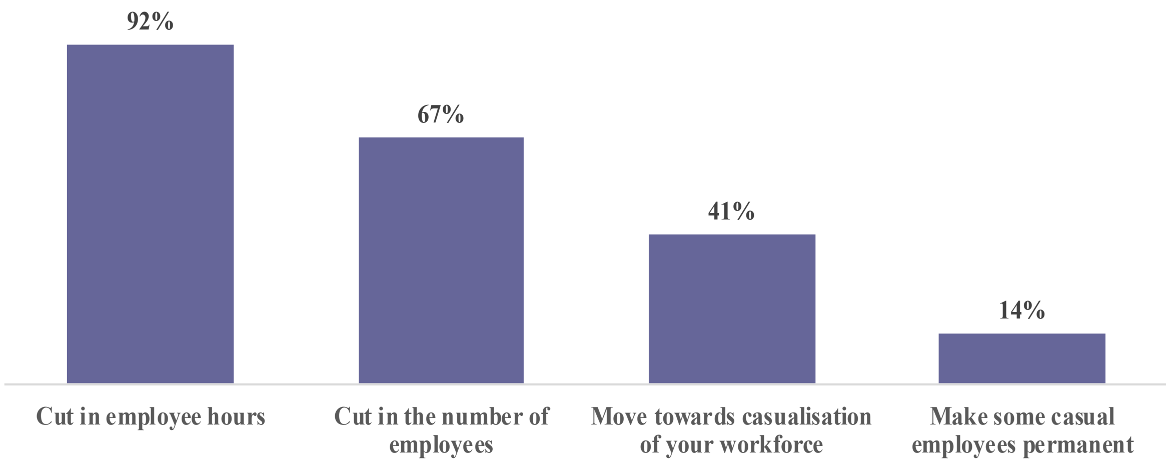
Impact of wage increases

Annual Wage Decisions by the FWC increased the minimum wage by 3 percent or more over each of the three years, 2017, 2018 and 2019. The survey responses indicate that the impact of wage increases on employment in stores owned by MGA members over the past three years has been considerable.

The report has already discussed the economics of how businesses are expected to adjust to labour cost increases- substitute family labour, change working arrangements, reduce output (trading hours) and, in the longer term, increase automation through introducing new capital. The responses of store owners/managers to a great degree confirm the predictions of labour economics.

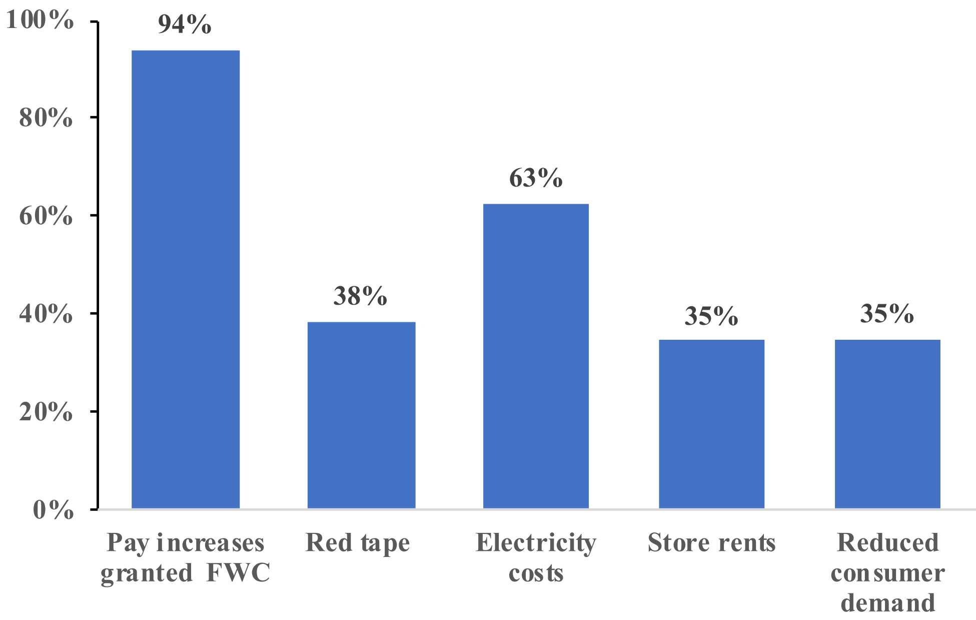
Of the respondents, 91 percent reported that wage increases had had an impact on their businesses. Figure 2 below summarises the responses considering the impacts of past increases in minimum wages with respect to employment numbers and the structure of work.

Figure 2: Effects of minimum wage increases on store employment



Of the 91 percent reporting wage increases had had an impact, 92 percent stated that they had cut employee hours worked and 67 percent had cut the number of workers employed. This is an overwhelming negative employment response to wage increases. 41 percent of store owners/managers sought to make more workers casuals, presumably to increase flexibility of labour adjustment, while 14 percent made some casual workers permanent, possibly to avoid the wage premium associated with casual employment.

Figure 3: Reasons for reducing employee hours



In a somewhat different question respondents were asked if they had reduced hours of employment during the past three years. 78 percent indicated that they had reduced hours of work and of these 94 percent stated that they had done so because of wage rises (Figure 3). Electricity costs were also were reported by 63 percent of respondents as a reason for reducing hours of employment. Over a third reported red tape – the complexity of regulations governing employment, the cost of renting your store's premises and reduced consumer demand, as reasons for reducing employee hours.

From the "open ended" questions (see Appendix A) where respondents were asked to comment on how increases in the minimum wage have impacted the number of employees or the terms under which they are employed in store, there were some common themes. These are summarised below.

Wage increases worsen an already difficult business environment. Labour is essen and wage increases necessitate compensatory cuts. These include:

- reduced staff numbers.
- reduced staff hours.
- employ younger, cheaper but less experienced staff. Hurts older employees in particular.
- owners work more hours, damaging their family life. Some can work up to 16 hours a day 7 days a week.

- some stores close more often, especially at times when penalty rates are payable.

It is easier to cut staff wage costs than other major expenses like rent, electricity or waste removal but service quality declines. Most cannot, but a few stores are, considering automation.

This range of adjustment processes is confirmed by the answers to specific questions. These results are presented below.

Table 6: Stores reducing trading hours per week

Reduced hours	None	1 to 5 hours	6 to 10 hours	11 to 15 hours	16 hours or more
2017	90%	8%	2%	0%	0%
2018	78%	17%	3%	1%	0%
2019	71%	19%	8%	1%	1%

Although most owners/managers have not reduced trading hours, a significant number have – the percentage reducing trading hours has lifted from about one in ten to three in ten since 2017. When asked to comment on why and on which times they stopped trading common threads were:

- they close more often, usually at times when wages exceed or go close to exceeding gross (pre-wage) profits. (Reduced hours are commonly early mornings and evenings and weekends when penalty rates are payable. Many stores shave 30 minutes or an hour off each day hours are reduced).
- several stores no longer open at all on public holidays or do so for two or more hours less.
- some owners work more hours themselves to avoid reducing trading hours.

Those who had closed their store on more days than in the previous year were asked by how many days per year (Table 7).

Table 7: Stores closing on more days than in the previous year

No of days closed	None	1 to 5	6 to 10	11 to 15	16 or more
2017	94%	6%	0%	0%	0%
2018	84%	14%	1%	0%	0%
2019	82%	15%	2%	1%	0%

The number of stores closing on more days than in the previous year has risen from 6 percent to 18 percent over three years. Also, whereas in 2017 no store closed for more than five days per year, 3 percent were closed for more than five days per year in 2019. Although most store owners/managers are still trying to keep trading on most days, there is a growing tendency for stores to close on certain days.

Those 18 percent who reported closing their store on more days than before were asked to comment on why. Again, the days closed depend on the revenue, net of wage costs, relative to wage costs.

Many stores now close on Christmas Day, Good Friday, Anzac Day and, in Victoria, Grand Final Eve holiday. Some now close on Sundays.

Among members with more than one store, some owners and their families work on these days in one store but close other stores.

Table 8: Owners/managers considering mechanisation/automation by number of employees

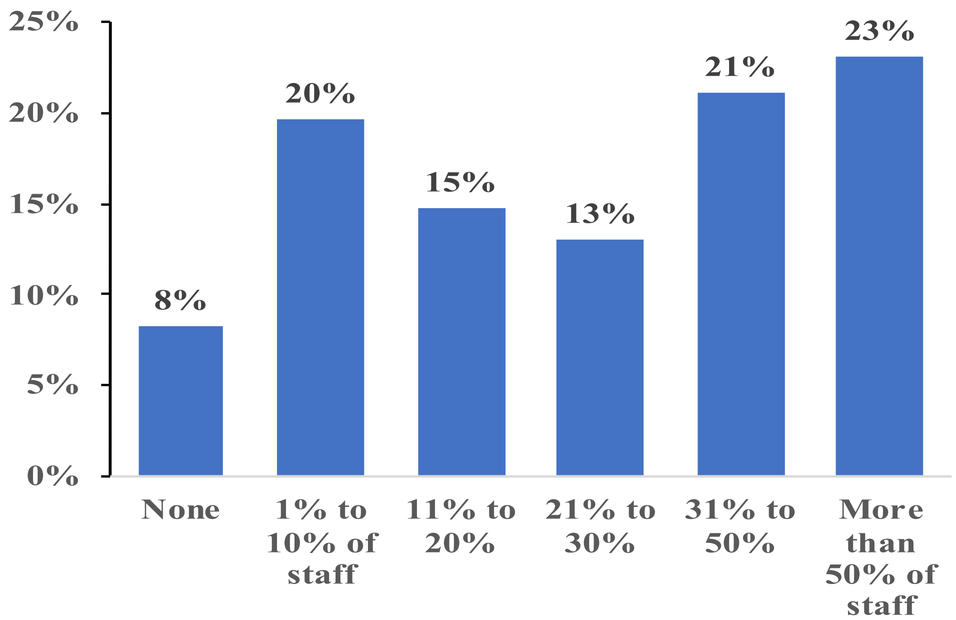
no. employees	Yes	No	Unsure
15 or less	18%	52%	30%
16 to 30	28%	43%	29%
31 to 60	42%	34%	24%
More than 60	46%	29%	25%

Finally, with respect to adjustment, store owners/managers were asked if they would consider mechanisation/automation to replace labour. Only 30 percent responded that they would, and these were mainly owners/managers of larger firms (Table 8) and there appears to be a relationship between store size and consideration of automation. This is as would be expected given the cost of investing in new capital equipment required for this. For these larger businesses, approaching half are considering mechanization/automation.

With businesses needing to cope with tough trading conditions and businesses making adjustments to the number of employees and the structure of employment, it would be expected that there would be an increased burden on employees. This could either be through unemployment but also through underemployment. This is defined as those working part-time but would like to work more hours ABS (2019).

In the survey store owners/managers were asked if their employees have asked for more hours of work. The answers to this question are shown in Figure 4.

Figure 4: Percentage of employers having employees asking for more hours of work



Of the respondents, 23 percent say more than 50 percent of their staff have asked for extra hours, another 21 percent say between 31 and 50 percent of their staff have asked for extra hours. Only 8 percent of store owners/managers report that no staff have asked for increased hours of work.

Of those reporting staff wanting more hours of work, the vast majority, 98 percent, consider this is due to wanting higher incomes. Higher incomes can be achieved by higher wages but might be better obtained by having more hours of work.

Figure 5: Stores unable to offer more hours of work to those requesting it

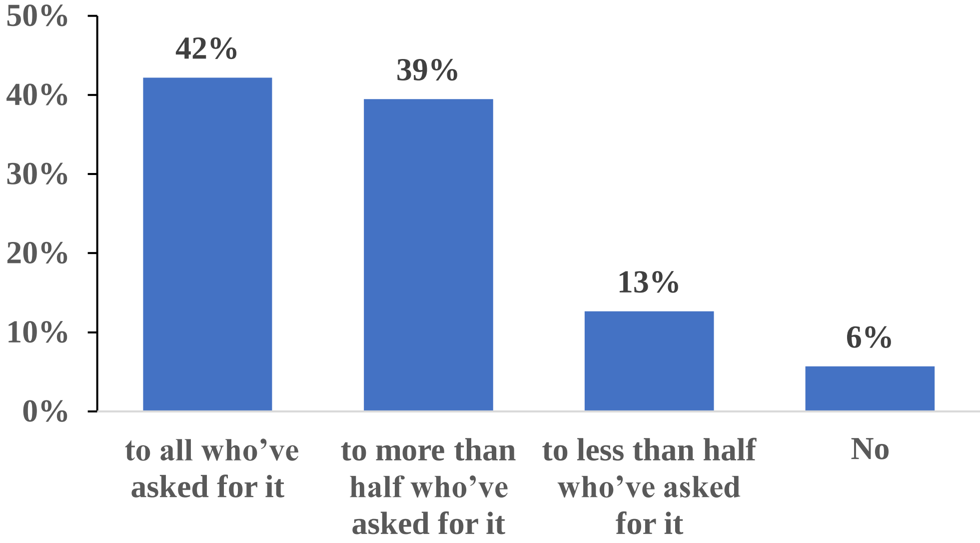


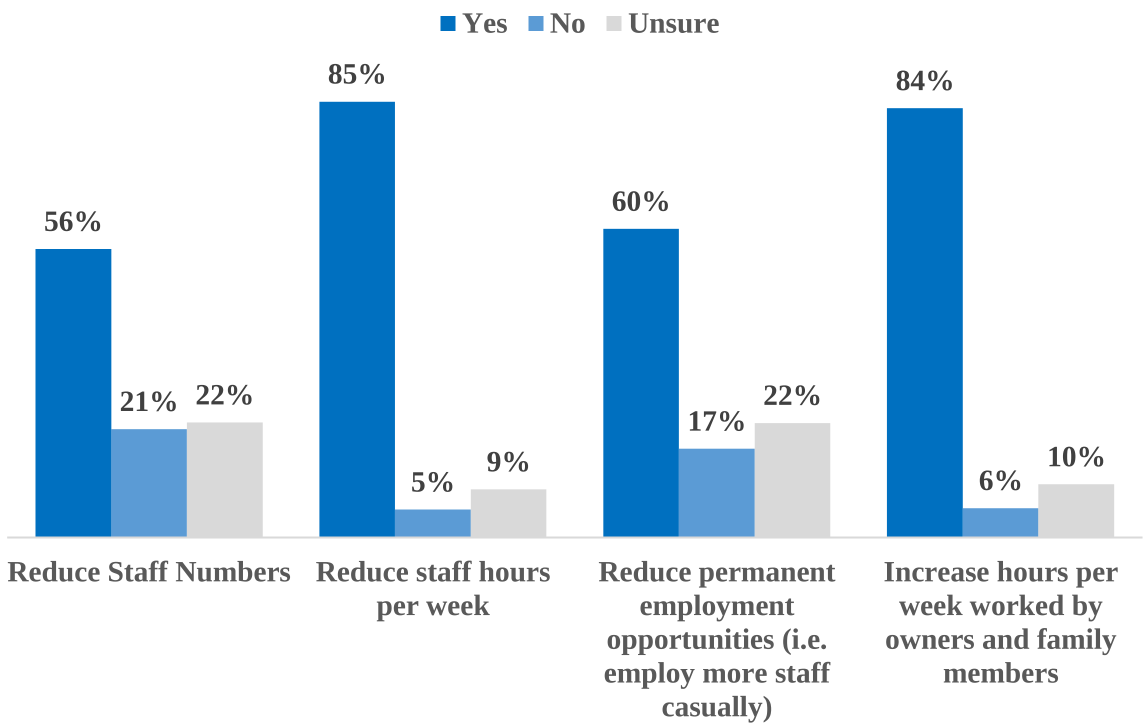
Figure 5 shows the extent to which requests for extra work have been met by employers. Of the 92 percent of store owners/managers reporting that staff had asked for more hours of work, only 6 percent have been able to offer more hours. 81 percent report that they have been unable to provide extra hours for all or over half those who asked for it. There would appear to be a high degree of underemployment and cuts in hours due to wage cost increases would be expected to exacerbate this underemployment.

Impacts of a further rise in the minimum wage

Annual Wage Decisions have increased the minimum wage by 3 percent or more over each of the years 2017 to 2019. Evidence from the survey has indicated adverse employment consequences of previous minimum wage increases.

The survey sought to find evidence on the likely impacts of a similar increase in the minimum wage in 2020. Specifically, owners/managers were asked if the Fair Work Commission grants another pay increase, what would be the most likely impacts, if any, on employment in their store in 2020.

Figure 6: Response of owners/managers to a rise in minimum wages in 2020



In response to the question of the response to a wage rise, 85 percent would reduce staff hours, 60 percent would make greater use of casuals and 56 percent would reduce staff numbers. Of respondents, 84 percent reported that owners and their family members would increase their hours of work to compensate for reduced use of hired labour. Each of these responses is in accord with the predictions of labour economics.

Table 9: Of those reporting they would reduce staff numbers, the percentage of staff currently which would be cut by store size (number of employees)

no. employees	1% to 10%	11% to 20%	21% to 30%	More than 30%
15 or less	57%	22%	14%	7%
16 to 30	60%	23%	10%	7%
31 to 60	74%	21%	5%	0%
More than 60	90%	7%	3%	0%
All stores	67%	20%	9%	4%

Although most stores, particularly large stores, would cut employee numbers by between 1 and 10 percent, 33 percent of stores report that staff numbers would cut more than 10 percent.

Clearly, the greater the number of employees the easier it is to make cuts of less than 10 percent. Labour adjustment is generally easier in larger stores.

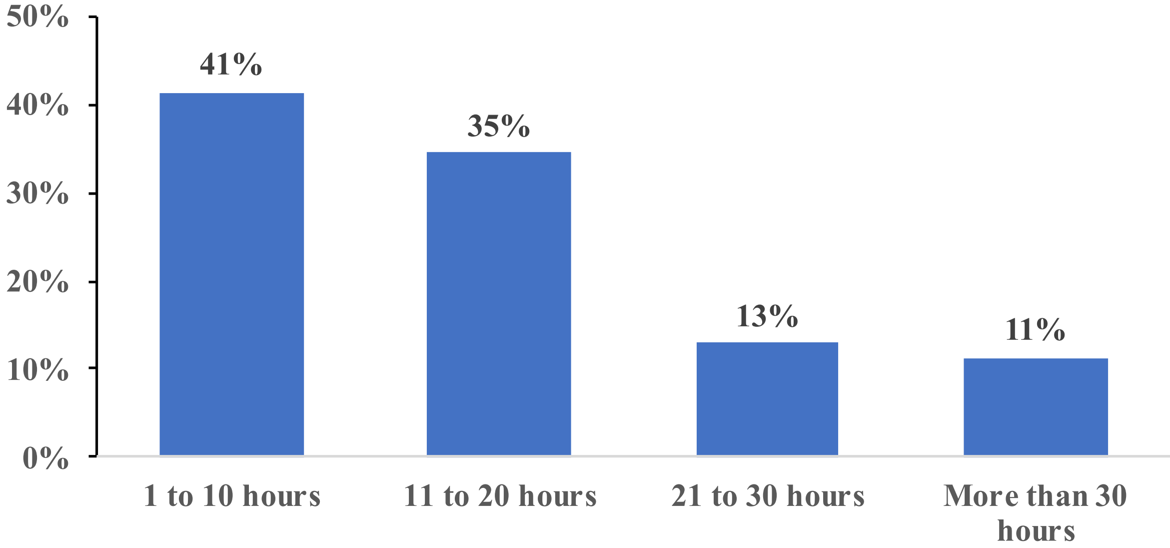
Table 10: Of those reporting they would reduce staff hours, the number of hours cut by store size (number of employees)

no. employees	1 to 10 hours	11 to 20 hours	21 to 30 hours	More than 30 hours
15 or less	56%	29%	7%	8%
16 to 30	26%	46%	14%	13%
31 to 60	34%	36%	14%	17%
More than 60	18%	30%	16%	36%
All	37%	36%	12%	16%

Of those saying they would reduce staff hours, over two-thirds would cut hours by between 1 and 20 hours (median 11 to 20 hours). 28 percent say by more than 21 hours a week. Clearly larger stores tend to cut hours more than smaller stores. The average reduction in hours is 16 hours per store, or almost one full-time equivalent worker.

Given the intended reduction in staff hours it would be expected that store owners/managers will attempt to substitute family labour, to the extent that they are able, for less hired labour. This was borne out by survey responses - 84 percent of owners/managers reported that they would increase the use of family labour.

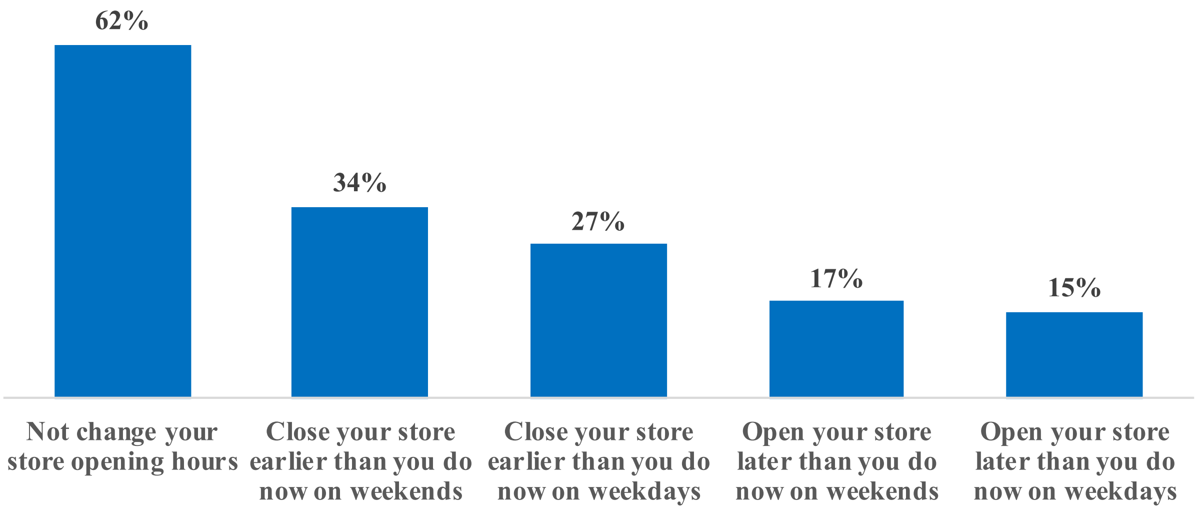
Figure 7: Of those reporting increased use of family labour, number of extra hours



Of those who said owners/family would work more hours, 59 percent estimate this will be over 10 hours a week. The average extra family hours worked is about 14 hours per week. This number is similar to the estimated average loss of hours of hired labour and represents a considerable switch in work from employees to family members. Not only is this a reduction in employment of people on awards it is also a considerable increase in the burden on families of business operators. It was reported earlier in this report that increased hours are already damaging family life for owners/managers.

Finally, we turn to the impact of a future rise in the minimum wage on output or, more specifically, trading hours.

Figure 8: Expected effect on trading of a three percent increase in the minimum wage



Although most, 62 percent, of store owners were reluctant to reduce trading hours further, 38% would reduce store opening hours, most commonly closing earlier on weekends and/or weekdays. This would inconvenience customers and also possibly affect the ability of smaller stores to compete against the major chains.

Summary of findings

Economic theory suggests that in response to an increase in wage costs businesses will reduce their demand for labour by reducing employment of hired labour and changing the structure of employment in favour of family labour, cheaper hired labour (such as juniors), increasing labour flexibility or some combination of these adjustment processes. Also, reduced output (through fewer trading hours) for many is a possible option. In the longer term businesses may seek to replace labour by capital through automation. The findings of the survey strongly support the economic theory.

The economic environment for stores has been worsening due to:

- Flat consumer demand
- The expansion of major supermarket chains, Coles, Woolworth and Aldi, especially into many regional areas. Typically, they open for extended hours and have high cost competitiveness, due in part to being more automated and less labour dependent than smaller grocers. The business model of smaller grocers places more emphasis on personal service.

The impact of wage increases on employment in stores owned by MGA members over the past three years has been considerable and this will continue if another wage rise of similar magnitude is granted by the Fair Work Commission during 2020.

- Most, 91 percent of MGA members, say minimum wage increases have affected employment in their store or stores. Of this 91percent:
  - 92 percent report cutting employee hours
  - 67 percent have cut the number of employees
  - 41 percent have increased casualisation of their workforce

Hours worked by employees in their stores has fallen over the past three years

- 78 percent of members say the total annual hours worked by employees in their stores has fallen over the past three years. 94 percent of them attribute at least part of this to pay increases granted by the Fair Work Commission. The other major cause is increases in electricity costs, stated by 63 percent. Compliance or red tape, rental costs and reduced consumer demand have also been blamed by just over one third of members.

Pay increases granted by the Fair Work Commission have been the main cause of increased business costs over the last three years

- 70 percent of members report increases in award have been the main cause of increased business costs over the last three years. Another 23 percent name it second, mostly behind electricity.

Wage increases are adding to the economic pressure. For most, this is necessitating compensatory changes to minimise the effect on their wage bills.

  - Usually this involves cutting staff numbers or hours, employing more younger, less experienced staff (which often diminishes service standards) or having owners or family members work more hours instead of paid employees.

- Many stores have also reduced trading hours or close on more days of the year.
- In addition, 30 percent of MGA members now report considering more automation to replace employees.
- Several also make the point that it is easier to cut wages than other major expenses such as rents, electricity or waste management costs. These other costs offer very little scope for flexibility.

Store owners/ managers provided detail about changes that have occurred during the past three years, from 2017 to 2019:

- The percentage of stores in which extra hours are being worked by owners or their families instead of employees compared to the previous year rose from 73 percent in 2017 to 92 percent in 2019. In more than half of these stores in 2019, owners and their families worked at least 16 hours more than they did in 2018.
- The number of staff employed by stores has dropped. In 2017, the percentage of stores employing 16 staff or more stood at 56 percent; by 2019 it dropped to 48 percent. Similarly, the proportion of stores employing between only one and five employees has risen from 15 percent in 2017 to 22 percent in 2019.
- Most stores have not granted permanent employment to employees because of wage increases.
- In 2017, 10 percent of stores report having reduced their trading hours. This increased to 29 percent in 2019. Typically, stores are closing when the proportion of net turnover to wages is negative or only marginally positive. Again, many owners work more hours themselves to avoid reducing trading hours.
- Similarly, the number of store owners/managers who say they closed their store on more days than in the previous year has risen from 6 percent in 2017 to 18 percent in 2019.

If another significant wage rise is granted by the FWC:

- 85 percent of store owners/managers say they would reduce staff hours per week, the median reduction being between 11 and 20 hours with an average of 16 hours per week
- 60 percent say they would employ more staff casually
- 56 percent indicate they would reduce staff numbers, with one third of these saying the cut would be more than 10 percent of staff numbers
- 84 percent say they themselves or their families would work more hours per week, the median being between 11 and 20 extra hours with an average of 14 extra hours per week
- 38 percent would reduce their trading hours, most commonly closing earlier on weekday and/or weekends. Some would also open their stores later than they do now.

Conclusion

The findings of the survey of store owner/managers provide overwhelming support for the conclusion that past increases in minimum wages have created major challenges for these businesses in an already tough business environment. Further, future rises of the magnitude of those already granted will further exacerbate the cost pressures on businesses. Wages are a necessary cost of business and only limited means of adjustment are available such as reduced employment of hired workers, increased use of family labour or reduced hours of trading or service standards.

The current business environment facing stores is one of increased concentration and market power of major retail chains who are turning to automation to cut staff numbers and labour costs. For independent retailers, for most practical purposes, staffing is the only variable cost that can be adjusted in an environment of increasing total costs of doing business. This affects their ability to hire workers and reinvest in the businesses. It could well affect the efficiency of managing a business as more of the owner’s time is spent on carrying out more of the day-to-day operations of the business, which could be done by employees, rather than managing the business, innovating and business planning for future growth. There is also the strain on store owners’ families as they work more hours to maintain the business.

There is overwhelming evidence from the survey that wage cost increases above inflation reduce employment, either through reduced number of people employed or reduced hours of work (underemployment). Accepting the latest Reserve Bank of Australia (RBA 2019) forecast of inflation of 2 percent per year a rise in the minimum wage above this would result in the number of employees and/or employee hours being reduced. An approximate estimate is that hired employment would fall by an average of 16 hours per store. Given that there are about 2,500 MGA branded stores this would represent a total fall of 40 thousand hours of paid employment per week. A rise equal to the rate of inflation would maintain the continuing difficult business environment for stores.

The survey has addressed the issues facing stores but there are wider effects which should be considered. Among these are the impact of lower employment in stores on the rest of the community. Local supermarkets are important sources of jobs, particularly in regional Australia. Less paid work available has flow-on effects to others, including families and other businesses. Reduced trading by stores reduces demand for local food producers and suppliers. These effects limit the ability of these communities to survive and grow.

The effects are that large retailers get bigger with consequent loss of competition for consumers and suppliers (e.g. milk producers), increased automation and less employment.

The consequences of lack of jobs are well-known (see, for instance, Hubbard et al 2019). These include costs to the economy, such as lower GDP, deterioration of human capital acquired on the job, retraining of displaced workers, the net drain on the federal budget of increased welfare payments, loss of tax revenue and the opportunity cost of government funds redirected from value-adding projects to welfare benefits. Costs to individuals include loss of income, loss of skills, the unavailability of entry-level jobs to young people and loss of self-esteem. There are also social costs since unemployment may contribute to family break-ups, health problems, mental illness, crime and break-down of community spirit.

While underemployment may not be as serious as unemployment, nevertheless it would be thought to be associated with a similar range of costs. Less employment in local stores would be expected to have flow-on effects to others in the community further increasing unemployment and underemployment while increasing dependence on social welfare.

The employment effects are likely to have a disproportionately large impact on younger employees. They are the most likely to be casuals, with 71 percent of 15-19 year-olds being casual employees (ABS 2014b). Younger employees are also more likely to be working in Retail Trade (18 percent of employees are 15-19 years old compared to 6 percent for the economy as a whole).

Casual employment is of major importance in providing jobs for young people and especially for those wishing to finance study. Without the employment opportunities provided by grocery retailers, participation in tertiary education would be less and the accumulation of human capital for both individuals, and for the economy, would be reduced.

Casual and part-time work can provide a ‘‘stepping-stone’ for welfare recipients into stable employment (see, for instance, Saunders 2017). The stepping-stone hypothesis also suggests that a casual job is likely to lead to a better and more stable job, because of more efficient job search, accumulated human capital, improved motivation and positive health effects. This conclusion is reinforced when the alternatives of unemployment and discouraged employment (not in the labour force) are recognised.

The above negative effects of unemployment and underemployment would be expected to be particularly felt in rural and regional communities, many of which are already suffering from the impacts of drought and bushfires.

As is evident from the survey results, to the extent that past increases in the minimum wage above the rate of inflation have been granted, there have already been negative effects on stores operated by MGA members and their employees. Further rises above CPI would be expected to exacerbate these negative effects.

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APPENDIX A: Sample of answers to open ended questions

Is there any comment you would like to make on how increases in the minimum wage have impacted the number of employees or the terms under which you employ them in your store? If there is something you would like the Fair Work Commission to know relating to the next minimum wage decision, comment here.

“We are fighting increased costs at a time when sales have been adversely effected by the introduction of Aldi into WA. As wage increases exceed sales growth, we have no alternative but to reduce shifts and staff numbers”

“--the bigger operators are making it so competitive and even moving into regional areas with extended trading hours. very difficult to do business - wish someone would really listen to you”

“We will employ less staff which then affects the time we as owners will spend with our children as we will need to cover the hours to reduce wages. Each time there is an increase to the minimum wage we have to revisit our wages budget, reduce our senior staff hours and use junior staff as much as possible. It is a difficult economy at the moment and our bottom line is not keeping up with wage increases”

“We have been in business for 40 plus years with a high retention on employees with the average staying for 15years plus, this has declined dramatically as we can't offer them the hours they need or the permanent position the require for their own security, which is understandable. We have multiple employees that work more than one job for this reason also. We live in a rural and remote country town which is trying to withstand the most devastating drought in history and have been for 5 years now another increase in wages will again change the dynamic of how we run the store. It will mean less staff again and less service we provide.

“Retail is struggling and every time there is a wage increase, we have to cut hours and the number of staff on quieter days. Any further wage increases will dramatically impact on our ability to provide enough hours for our workers.”

“We focus on hiring younger, cheaper staff. So rather than employ more experienced people we would train school or uni students for the same roles. On weekends we hire younger, cheaper staff, compromising the quality of service, that more experienced staff would provide.”

“The only logical move that can be made is to cut the workforce even more which leaves a big hole in customer satisfaction. Otherwise there is no way a business can sustain all government charges, power, wages, competition, rent, etc. to keep going. It's just another kick in the guts…"

You said you reduced weekly trading hours. Can you comment on why and on which times you stopped trading?

"…Close store 1 hour every day early outside of Christmas trade to save wages"

"We cut one hour 4 days, Sunday, Monday, Tuesday and Wednesday. To save wages on the slowest part of the week. I am planning to close the shop at 8 pm instead of 8.30 Mon to Sat. Just can't afford overtime after 6 pm"

"We reduced our closing time by half an hour per day during the week. This was to save wages"

"Open later to minimise penalty rate costs & closed earlier for same reason"

"Opened later and closed earlier. Traded only at the peak trade times as wages were higher than gross profit on those hours. Closed on public holidays or operated stores ourselves or with family as wages far exceed any gross profit on those days"

"Reduced Opening Hours Saturday & Sunday (11 back to 8.5) Earlier closing weekdays: 7:00 p.m. back to 6:00 p.m. Why: To reduce total salary costs which in turn allows retention of existing staff"

"We close at 7 pm Sunday instead of 8pm. We used to trade until 8.00pm. Then we went to closing at 7pm over winter until daylight savings started. However, for the past 2 years we could not justify the wages to do so and have decided to maintain closing at 7pm all year round"

". We started by reducing our trading hours on a Sunday to alleviate financial pressure caused by increased penalty rates, when Fair Work introduced extra penalties for casual staff starting work before 7.00am we then did a business analysis to assess the viability of trading an hour later to alleviate once again another penalty imposed on small business. So, we now open an hour later on Sundays and close an hour earlier on Sundays. We have also started trading an hour later every other day Mon-Sat for the same reason"

You said you close your store on more days than before. Can you comment on why and on which days have you stopped trading?

“Public Holidays it wasn't worth opening and paying higher wages when the larger supermarkets Coles and Woolworths were open on these days”

“Closed due to wages exceeding gross profit. Particularly on public holidays”

“Public holiday and Sunday rates are a big concern!!! We end up paying more in wages if we trade on these days”

“Anzac Day, Easter Sunday and Monday”

“..public holiday rates are not worth paying to staff as margins do not cover the expenses”

“We have now stopped trading on public holidays as staff costs of over $50/hr to stand at a till and sell products with a 20 percent markup cannot be justified”

“As of this year 2019, I will close my store on Christmas day and New Year’s Day. Who can pay $55, plus super, to open on these days? At this point it is simply a community service to open so I would rather have the day off now, not pay staff and keep my stock.”

“Do not open large store on public holidays even if able to by legislation. All public holidays are 7am to 4pm instead of 7am to 7pm and boxing day. Penalty rates are too high . No seniors work on these days”

“We haven't opened on some public holidays because I can't afford to pay employees and we can't manage alone”

“We have cut hours of trade on public holidays. Which gives my staff less hours. I also work these days and give the hours to juniors as I can't afford the wages”

“Ceased Sunday trading -Not enough trading to warrant trading, paying higher wages on Sunday’

“Mainly public holidays, when we don't charge customers extra on holidays and pay penalty rates for staff on public holidays, we lose money by opening the shops”

APPENDIX B: MGA & MGA TMA: Members' survey – 2020 Annual Wage Review

Thank you for taking the time to participate in MGA's members survey.

The purpose of this survey is to provide practical evidence to back up the MGA's submissions to the Fair Work Tribunal regarding the 2020 Annual Wage Decision. The questions cover wages and compliance requirements and their importance to your business.

Annual Wage Decisions have increased the minimum wage by 3% or more over each of the last three years. MGA wishes to find evidence of the validity of some of the reasoning that led to this outcome.

Evidence from this survey – and we ask every member to complete it as truthfully and accurately as possible – will support the case we make on behalf of our members at the 2020 Annual Wage Decision in March next year.

It may also be used in dealings with other regulatory bodies as well.

Any details regarding the store's name and owners(s) will remain confidential.

For this survey, answer for the largest store that you own/operate if more than one.

If you require any assistance, contact one of our specialist team:

Marie Brown
MGA National Legal Counsel
(03) 9824 4111 (option 1)

David Mostokly
MGA Legal and HR Services Lawyer
(03) 9824 4111 (option 1)

Jos de Bruin
CEO | MGA Independent Retailers
(03) 9824 4111 (option 1)

INTRO A

Name of Store: ____
Name of Store Owner: ____

INTRO B

Which best describes the location of your store:

a. Metropolitan Sydney
b. Regional NSW
c. Metropolitan Melbourne
d. Regional Victoria
e. Metropolitan Brisbane
f. South-east Queensland outside the Brisbane City Council area
g. Regional Queensland (outside SEQ)
h. Metropolitan Adelaide
i. Regional SA
j. Metropolitan Perth
k. Regional WA
l. Metropolitan Hobart
m. Regional Tasmania
n. ACT
o. NT

INTRO C

Your store or stores’ sector (tick any applicable)

a. Grocery
b. Hardware
c. Liquor

1. What is your primary business?
    a. A sole owner of one grocery store
    b. A joint owner of one grocery store
    c. A sole owner of more than one grocery stores
    d. A joint owner of more than one grocery store
    e. A full-time manager but not owner of the store you work in
    f. Other (please specify) ________________________

2. How many employees does your store employ?
    a. 15 or less
    b. 16 to 30
    c. 31 to 60
    d. More than 60

3. For employees' pay, do you operate under:
    a. An enterprise agreement
    b. An award and decisions made by the Fair Work Commission
    c. Individual agreements
    d. Unsure

4. Have increases in the minimum wage had any effect on employment in your store?
    a. Yes
    b. No

5. **[IF Q4=Yes, ask]** What have those effects been? Select all that apply to your store
    a. Cut in employee hours
    b. Cut in the number of employees
    c. Move towards casualisation of your workforce
    d. Make some casual employees permanent

6. Is there any comment you would like to make on how increases in the minimum wage have impacted the number of employees or the terms under which you employ them in your store? If there is something you would like the Fair Work Commission to know relating to the next minimum wage decision, say it here.

    ____

7. To demonstrate the impact of wage increases on your business in the last three financial years, can you indicate how the following things have changed in your store over the past three years:
    A. The number of additional hours per week worked by owners and family instead of employees

2017	2018	2019
a. No additional hours	a. No additional hours	a. No additional hours
b. 1 to 5 hours	b. 1 to 5 hours	b. 1 to 5 hours
c. 6 to 10 hours	c. 6 to 10 hours	c. 6 to 10 hours
d. 11 to 15 hours	d. 11 to 15 hours	d. 11 to 15 hours
e. 16 hours or more	e. 16 hours or more	e. 16 hours or more

B. How many FT, PT and casual staff did you employ (total heads)?

2017	2018	2019
a. 1 to 5	a. 1 to 5	a. 1 to 5
b. 6 to 10	b. 6 to 10	b. 6 to 10
c. 11 to 15	c. 11 to 15	c. 11 to 15
d. 16 or more	d. 16 or more	d. 16 or more

C. Did you not offer any employees permanent employment where you would have if wage increases had not been imposed by the Fair Work Commission?

2017	2018	2019
a. Yes	a. Yes	a. Yes
b. No	b. No	b. No

D. Have you reduced store trading hours per week, if so by how many hours?

2017	2018	2019
a. Not reduced trading hours	a. Not reduced trading hours	a. Not reduced trading hours
b. 1 to 5 hours	b. 1 to 5 hours	b. 1 to 5 hours
c. 6 to 10 hours	c. 6 to 10 hours	c. 6 to 10 hours
d. 11 to 15 hours	d. 11 to 15 hours	d. 11 to 15 hours
e. 16 hours or more	e. 16 hours or more	e. 16 hours or more

E. Have you closed your store on more days than in the previous year? If so, by how many days per year?

2017	2018	2019
a. Not closed on more days than previous year	a. Not closed on more days than previous year	a. Not closed on more days than previous year
b. 1 to 5	b. 1 to 5	b. 1 to 5
c. 6 to 10	c. 6 to 10	c. 6 to 10
d. 11 to 15	d. 11 to 15	d. 11 to 15
e. 16 or more	e. 16 or more	e. 16 or more

F. **[Ask if 7D=b, c, d, or e for any year]** You said you reduced weekly trading hours. Can you comment on why and on which times you stopped trading? ____________________________________

G. **[Ask if 7E=b, c, d, or e for any year]** You said you close your store on more days than before. Can you comment on why and on which days have you stopped trading? ____________________________

H. What was your sales turnover?

2017	2018	2019
a. Less than $1 million	a. Less than $1 million	a. Less than $1 million
b. $1 – $5 million	b. $1 – $5 million	b. $1 – $5 million
c. $6 – $7 million	c. $6 – $7 million	c. $6 – $7 million
d. $8 – $12 million	d. $8 – $12 million	d. $8 – $12 million
e. $13 million or more	e. $13 million or more	e. $13 million or more

8. Have the annual hours worked by employees in your store reduced over the last 3 years?

   a. Yes
   b. No
   c. Unsure

8a. **[If Q8=Yes, ask]** Which of the following were causes of this reduction in employee hours? Select all that apply

   a. Pay increases granted by the Fair Work Commission
   b. Red tape – the complexity of regulations governing employment
   c. Electricity costs
   d. Cost of renting your store's premises
   e. Reduced consumer demand

9. Thinking of cost increases in your business over the last 3 years, please rank the following 1 to 4 where 1 = the one that caused the greatest increase and 4 = the one that caused the smallest increase:

   a. Pay increases granted by the Fair Work Commission ______
   b. Red tape – the complexity of regulations governing employment ______
   c. Electricity _____
   d. Rent of premises _____

10. Are you considering increased mechanisation to replace employees?

    a. Yes
    b. No
    c. Unsure

11. In the past two years, what proportion of your staff have asked for extra hours?

    a. None
    b. 1% to 10% of staff
    c. 11% to 20%
    d. 21% to 30%
    e. 31% to 50%
    f. More than 50% of staff

12. **[If Q12= b to f]** Have you been **unable** to provide any additional hours to any staff who requested more work?

a. Yes, unable to provide more work to all who've asked for it
b. Yes, unable to provide more work to more than half who've asked for it
c. Yes, unable to provide more work to less than half who've asked for it
d. No

12A. **[If Q12= b to f]** Which of the following are reasons why the staff wanted extra hours?
a. Needed more income
b. Wanted extra experience
c. Other (Please specify) ___________________________________

13. If the Fair Work Commission grants another pay increase of 3%, what would be the most likely impacts, if any, on employment in your store in 2020? Would you?

A. Reduce staff numbers?
a. Yes
b. No
c. Unsure

Ai. **[If Yes]** What percentage of staff numbers do you expect you would cut?
a. 1% to 10% of staff
b. 11% to 20%
c. 21% to 30%
d. More than 30% of staff

B. Reduce staff hours per week?
a. Yes
b. No
c. Unsure

Bi. **[If Yes]** How many hours do you expect you would cut per week?
a. 1 to 10 hours
b. 11 to 20 hours
c. 21 to 30 hours
d. More than 30 hours

C. Do you expect you would reduce permanent employment opportunities (i.e. employ more staff casually)?
a. Yes
b. No
c. Unsure

D. Would you increase hours per week worked by owners and family members?
a. Yes
b. No
c. Unsure

Di. **[If Yes]** By how many hours per week?

a. 1 to 10 hours
b. 11 to 20 hours
c. 21 to 30 hours
d. More than 30 hours

E. Do you expect you would: **[multichoice b-e]**

a. Not change your store opening hours
b. Open your store later than you do now on weekdays
c. Open your store later than you do now on weekends
d. Close your store earlier than you do now on weekdays
e. Close your store earlier than you do now on weekends

Thank you for your time, valuable insights and contribution toward this survey.

Your views and feedback **DO COUNT** and will make a significant difference to assisting MGA to help keep your business competitive. We will use the information to develop important Industrial Relations policies to be used in Canberra to advocate for Industrial Relations reform that will endeavour to reduce Award complexity and increase workplace flexibility for you in your store/s.

THANK YOU

CONCLUSION

Independent retailers have been continually challenged throughout the last financial year with higher wages and reduced margins. They want to provide additional hours to staff but they are unable to do so. Our members work tirelessly to cope with the challenges of higher wages and award changes.

Our members' businesses have also remained the point of entry into employment for countless employees across Australia, including in those areas around Australia that see exceptionally high youth unemployment. independent supermarkets and liquor stores hardware and timber businesses that make up our members are mainly small to medium and generally employ staff under the relevant Award. Therefore. they are more susceptible to the economic pressures that flow from increases to the national minimum wage. Any increase to award wages will impact our members and detrimentally affect the industry and its employees.

Over the last three years our members have coped with three significant annual wage increases. The increase in 2017 was 3.3% and the increase in 2018 was 3.5% and 3.0% in 2019. Therefore, the combined impact of 9.8% in the space of three years has resulted in extreme hardship for MGA/TMA members and an increase similar to the last three years will have devastating consequences, particularly in terms of employment in the industry.

As a result of wage increases, MGA/TMA members have already engaged in various practices in an effort to cope with the rising costs of operating their business, including staff reductions, reducing employment hours and/or seeking to employ only junior staff. However, these cost saving efforts are not sustainable ongoing.

In order to demonstrate the hardship that the independent retail and timber sectors have undergone we have focussed on the difficulties that have resulted from high, consistent annual award wage increases over the past three years. In isolation a 3% or 3.5% increase does not seem to be overly high, but when applied to the various penalties that exist in the awards, the cost eventually becomes exponential and therefore eventually, unsustainable. MGA/TMA needs some respite from this ever increasing cost burden. Hence we are seeking that although the FWC may see the need to increase the <u>minimum wage rates</u> for certain categories of employees, that consideration is given to not increasing the award rates, not just because of the further expense of a higher wage rate and its consequences, but also because of other factors now pressing on the economy, including the results of the bushfires and the destructive effects of the coronavirus. We therefore urge the FWC not to increase the award wage rate in 2020, to allow independent supermarkets, liquor, timber and hardware stores to remain viable and serve as an important source of employment in Australia.

MGA/TMA sincerely thanks the Fair Work Commission for this opportunity to make a submission to the Minimum Wage Panel for the purposes of the Annual Wage Review 2019-20**.**

Jos de Bruin
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MGA Timber Merchants Australia
Master Grocers Australia Limited
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