Submission by the Master Grocers Australia
to the
Australian Fair Pay Commission
on the
2008 Minimum Wage Review
March 2008
1. About Master Grocers Australia

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

Independent Supermarkets play a major role in the retail industry and make a substantial contribution to the communities in which they trade. There are 2100 independently owned IGA and FoodWorks supermarkets employing over 70,000 full time, part time and casual staff, representing $12 billion in retail sales. Many MGA members are small family businesses, employing 25 or fewer staff.

MGA commends the 2007 decision of the Australian Fair Pay Commission (AFPC) to award a modest increase to employees, particularly in view of the fact that the increase was implemented so soon after the first decision of the AFPC in 2006. The earlier decision to award a substantial increase in wage rates placed considerable pressure on the financial position of many retailers in the independent supermarket industry, particularly small businesses.

MGA welcomes the opportunity to make this submission to the AFPC in 2008.
2. Introduction

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

It is also intended to show the AFPC how employees are employed in the independent supermarket retail sector. We will make reference to the difficulties experienced by independent supermarket employers when substantial increases are made to wages, as these increases not only affect the total wages bill but also inevitably impact on the many other costs that are associated with operating a small business.

MGA will submit that there are valid reasons why the AFPC should not award a high increase to wages. A significantly high increase will be unsustainable to the continuance of small businesses in their current form and will impact on the ability of many businesses to maintain their current employee numbers. Higher wages will inevitably increase costs of retail goods to consumers.

MGA will submit that the AFPC should award a moderate increase that is not dissimilar to the increase that was awarded by the AFPC in 2007.

3. The Role of Independent Supermarkets in the Australian Economy

3.1 Economic Indicators generally
The Australian economy currently appears to be robust. Australia has been enjoying a booming economy and low inflation for several years. However, there are various factors which are likely to place considerable strain on sustained economic growth in the coming months.

According to the Reserve Bank’s “Statement on Monetary policy” *1 global commodity prices remain high, which has boosted incomes and spending in Australia. Continued growth in household incomes and taxation cuts are reflected in rising employment figures. These factors have driven an increased growth in consumer demand.

The consumer price index has risen by 0.9% in the last quarter of 2007 and is an indicator of an increase in Australia’s inflationary rate. Factors such as increasing oil prices and the drought are likely to impact on inflation and it is impossible to place controls on these factors. However, it is possible to control inflationary risk associated with wage increases by exercising wage restraint.

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1 Statement on Monetary Policy-Reserve Bank of Australia –February 2008
3.2 Economic trends in the Supermarket industry
There has been varied growth in the Supermarket industry across the Australian States over the last six months. There was strong growth in South Australia during this period with moderate trends in Tasmania, NSW, Victoria, Queensland and Western Australia to weak trend growth in the Australian Capital Territory*2

3.3 Independent Supermarkets in the Economy
The retail industry employs approximately 14.4% of the total Australian labor force, with supermarket and grocery retailing employing approximately 26.5 % of total retail employment.*3

The grocery retailing industry employs approximately 3.8% of Australia’s total labor force. About 51% of employees work in a full time capacity and the remainder is either part time or casual. The Supermarket and grocery sector is the largest contributor to retail turnover and it has grown consistently over the last two decades.*4

Most independent supermarkets are operated as small to medium sized businesses, many of them are operated as family businesses and they make a major contribution to the Australian economy. These small to medium sized businesses employ a total of 57% of total supermarket and grocery employees, consisting of 23,859 full time employees and 33,310 part time and casual equivalent employees.*5

Small to medium independent supermarkets play a major role in the life of local communities, particularly in country regions where often working for the small local supermarket is the first step in employment for young people. Independent supermarket employers also welcome the opportunity to provide employment opportunities to large numbers of adult employees in the community. Many independent supermarket employers foster community activities, promote cultural events and generally contribute to the local economic environment. The independent supermarket industry offers employees the opportunity to work in a smaller store where they can establish personal relationships with their employer and gain opportunities for promotion in a small, employer friendly, working environment.

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*2 Australian Bureau of Statistics, January 2008
*3 Australian Bureau of Statistics, Catalogue 6291006
*4 The Economic Contribution of small to medium sized grocery retailers to the Australian economy-Price Waterhouse Cooper June 2007
*5 ibid
The independent supermarket industry is a significant employer of both female and male young workers. A recent national survey undertaken by MGA showed that of approximately 13,000 employees working in 350 small, medium and large stores almost a quarter were junior employees. These young employees work in the independent supermarket industry for a variety of reasons. Many of these employees are students who work to support themselves and others work in order to contribute to the family budget. Some young workers looked upon their jobs in the independent supermarkets as a career path or as an opportunity to gain useful work experience.*6

Due to the increasing growth in the number of independent supermarkets throughout Australia the number of job opportunities is likely to continue for young and adult workers, provided that there is no significant change to the current economic environment.

4. How employees are employed in the Supermarket Industry

The majority of independent supermarkets rely on the award system for employing their employees, although a number of independent supermarket employers are now making collective agreements with employees. It is likely that they will continue to make such agreements in the future. Collective agreements are in most cases negotiated directly with employees because independent supermarket employers are keen to provide flexibilities in employment for families and students and also provide good working conditions.

In Western Australia there has been a heavier emphasis on using Australian Workplace Agreements (AWAs) in the supermarket industry than in other States. In view of the expected changes to the Federal industrial relations laws under the new Labor Government, it is anticipated that many retailers who had previously operated under AWAs, will be entering into collective agreements.

Any collective agreement must currently be compliant with the Fairness Test and it is expected that future collective agreements will need to comply with the “no disadvantage test”. Independent supermarket employers who enter into agreements, do so with the intent of ensuring that their employees are fairly remunerated for their work. Many of these agreements have included clauses which provide for increases to be aligned with increases that are awarded by the AFPC. Therefore, even if an independent supermarket employer offers

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6 Report on Questionnaire undertaken by MGA on Junior Rates and Trainee wages November 2007- DelBeato Young
employees the flexibilities of a collective agreement, the wage rates will continue, in most cases, to be dictated by the rates contained in the award system.

Wage rates in the supermarket industry may be considered to be relatively low comparison with other some other industries. The minimum hourly rate varies across the different States but is approximately $15.30 an hour for work between 9 a.m to 5.30 p.m. for a 5 day week, Monday to Friday.

The hours of work in the independent supermarket Industry extend beyond the former traditional 9 a.m. to 5 p.m. trading hours across 5 days. The supermarket retail Industry in most States operates across 7 days (the major exception is Western Australia) and many stores open until late in the evening in response to consumer demand. An independent Supermarket employer is therefore required to pay penalty rates for late shifts during the week and for Saturday and Sunday work. In some States the full time hourly rate for work on Sunday is approximately $32.00 per hour for full time and casual employees and on a Public Holiday the rate is approximately $40 per hour.

It should be noted that the rate of approximately $15.30 per hour does not apply to a large proportion of employees in the retail Industry, as there is a high component of casual employees (see above statistics) and the wage rate is increased by a casual loading of between 20% and 25%. It is recognized that this additional payment is to provide for non accumulation of annual and personal leave, but it should be noted that generally the additional penalties are calculated on this higher amount.

Supermarket owners recognize that payment of a penalty rate to employees who work outside the hours of 9 a.m. to 5 p.m. is to compensate for working hours that are perceived as “unsociable hours”. These additional penalties are often difficult for employers to meet yet they are compelled to pay the rates as they are required to open at times that meet community demands. It is likely that these high rates will continue even with award modernization or new collective agreements.

One of the biggest issues impacting on the supermarket retailers is the increasing concern about labor shortages. Unemployment is at its lowest ebb in 30 years and this is having a detrimental effect on the supermarket retail industry.

It is not uncommon, particularly in Western Australia, for an employee to be engaged for less than two weeks before seeking more lucrative wages in industries that provide higher wages. Vacancies for retail positions continue to
remain high and advertisements for vacancies in supermarkets often receive a nil response.

Independent supermarkets operate in an extremely competitive environment. Their ability to sustain their position in the market place is often difficult when they are faced with pressures from larger competitors who are able to sell products at lower shelf prices. They also face high charges for property rentals in city and country regions. These high costs make it difficult for independent supermarket employers to maintain their businesses at reasonably profitable levels and the situation is likely to worsen if they face higher wage bills which may force them to increase the prices of goods to the consumer.

4. Wage Increases in 2008

MGA submits that the AFPC should exercise caution when considering a wage increase in 2008. MGA submits that the AFPC should consider awarding only a moderate increase to wages in view of the impact that a high wage increase is likely to have on the economy generally, and the Independent supermarket industry in particular.

5. Reasons why MGA urges the AFPC to exercise caution when considering wage increase:

- Independent supermarket employers realize that there is a need to maintain wages at a realistic level for their employees and they recognize that their employees should be fairly rewarded for their work. But for independent supermarkets it will be difficult to sustain a high wage increase in the coming year and also maintain current employment levels. As previously stated a wage increase to the base hourly rate automatically increases the total hourly rate, inclusive of the penalty rate to an extremely high level. A casual employee who works on Sunday for six hours would be paid in excess of $200. If a small store employs only a few employees the wages costs would be likely to outweigh the day’s takings and the costs for opening the store.

- Whilst an increase to the hourly rate could have a detrimental effect on the total wages bill it should also be noted that a business needs to factor in the higher "on costs" associated with any increased wage rate. These "on costs" include increased workers compensation, superannuation and long service leave payments. A small supermarket business will inevitably have difficulty in coping with the additional costs that are associated with the employment of staff.
A survey of wage rates for juniors conducted in late 2007*7 showed that independent supermarket employers in the industry placed considerable importance on providing employment opportunities for young workers in order to gain life skills and training opportunities. Employers also felt that the wage scales percentages were appropriate given that young workers were mainly unskilled and lacked experience. A high increase in wages is likely to impact on the continued ability of employers to employ junior staff. The vast majority of young workers are also casual employees and whenever a wages increase occurs that cannot be sustained by a small business, it is usually the total casual employee number that is the prime target for staff reduction.

If the AFPC increases wages substantially it will inevitably affect the price of goods and ultimately the costs to the consumer. Wage increases affect the overall business operations including, but not limited to the delivery and packaging of goods, the cost of retail security and store cleaning costs. These increased costs will inevitably require an employer in the supermarket industry to consider where it is possible to pursue cost reductions. Most employers do not wish to reduce staffing levels but there may be little choice.

MGA urges the Commission to consider only a modest increase to the ordinary hourly rate in order to avoid the serious impact that a higher wage increase may have on the independent supermarket industry.

4. Timing of any increase in wages

MGA supports the timing of the current review by the AFPC and seeks that any further increase which might be awarded by the Commission is not effective until at least 12 months from the date of the last increase.

5. Conclusion

In summary, MGA has concerns that a high wage increase would be untenable for many independent supermarket retailers who wish to retain their full time staff levels and to continue to give opportunities to employees who work as casual employees, either for family or educational reasons. Any large increase to wages would take its toll on the ability of many retailers to maintain their current staffing levels.

MGA therefore urges the AFPC to consider only a moderate increase to wages.

7 Reference See footnote 5