

MASTER GROCERS AUSTRALIA LTD

**Submission to the
Fair Work Commission
Wage Panel
Annual Wage Review
2018–2019**

15 MARCH, 2019

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About Master Grocers Australia (MGA/TMA Independent Retailers)

MGA Independent Retailers (MGA) is a national employer industry association representing independent grocery, liquor, and other retail outlets including timber and hardware, in all States and Territories. These businesses range in size from small, to medium and large, and make a significant contribution to the retail industry, accounting for approximately \$15 billion in retail sales.¹

There are 2,700 branded independent grocery stores, trading under brand names such as: Supa IGA, IGA, IGA Xpress, Farmer Jacks, FoodWorks, Foodland, Friendly Grocers, SPAR and Supabarn, 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, Bottlemart, 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 115,000 staff are comparatively much smaller when juxtaposed against the large supermarket chains of Coles, Woolworths and Bunnings, which combined represent approximately 80 per cent of the retail supermarket, liquor and hardware industries.

A substantial number of employees in the independent supermarket, liquor, timber and hardware sectors are employed on the minimum award rates set by the General Retail Industry Award 2010 and the Timber Industry Award 2010. The level of susceptibility to a wage increase is far greater on independent stores because many of these businesses are generally small in nature, community-based, and family-operated. 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. Any wage increase can cause financial difficulties, and this can impact on all levels of employment.

MGA 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 2018–19.

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

Executive Summary

MGA supports an increase to the national minimum wage and modern award rates of not more than 1.2 per cent based on a 38-hour working week 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, to sustain an increase to award rates in excess of 1.2 per cent, following the 3.5 per cent increase in July 2018.

During the period since the last annual wage increase the members of MGA have been impacted by significant decisions of the Fair Work Commission. There have been amendments made to the General Retail Industry Award (GRIA) that have affected their viability to maintain their businesses including increased penalties rates for casual employees on weeknights and Saturdays. Additionally, the introduction of the right for casual employees to convert to permanent employment status has also had a significant cost imposition for retail employers.

Other costs, in particular the exorbitant cost of energy, is impacting on their survival. Any further increases in costs for retailers will have a severe adverse impact on the financial stability of independent businesses and their ability to maintain employment levels. Another fear which is causing considerable concern and uncertainty is the possibility that thousands of casual employees who receive compensation for the lack of permanent status will challenge their right to permanency and claim back pay for entitlement to annual leave and sick leave in addition to the 25% loading.

Although the decrease in Sunday Penalty Rates case in 2017 was welcomed by retailers across Australia and the effect of that decision was a significant boost for store owners, the benefit has been somewhat eroded due to other increases being imposed. It is hoped that any political challenge to the decision is avoided in the future.

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.

Many small businesses operate with limited resources in the most concentrated independent retail sector, where 80 per cent of the market share is controlled by Coles and Woolworths and Bunnings. There was some respite for smaller supermarkets who have for years been stymied by the power of the duopoly as a result of the decision in 2017 to introduce the 'effects test' into the Competition and Consumer Act 2010. Nevertheless, independent supermarkets and liquor stores continue their endeavours to remain viable in difficult market conditions. Additionally, small hardware stores struggle for survival against the might of Bunnings and small timber businesses constantly deal with labour shortages and like the supermarket retailers they struggle with increased

energy costs. A further recent threat to the independent retail industry is the growing impact of foreign retailers entering the retail market. There is already the combined strength of European retailers Aldi and Costco, but now there is the additional threat of the Kaufland hypermarkets.

MGA submits to the Panel that any increase in wages at this stage will have a detrimental effect on all independent small businesses and it is submitted that if the Panel chose to provide an increase to wages it should be no more than 1.2% per cent. Any amount awarded in excess of 1.2% to the minimum award rates will adversely affect independent supermarkets, liquor, hardware and timber small businesses. If independent retailers need to cope with an unreasonably high wage increase, they will have no choice but to implement measures such as staff reductions, and the employment and allocation of more shifts to juniors in preference to senior staff members. Such adjustments would be inevitable in the light of previous adjustments that have already been made. There would also be an increased risk of redundancies or at the most extreme—store closures.

The Requirements of the Annual Wage Review 2018-2019

MGA appreciates that the Fair Work Commission is required to undertake an annual review of wages in Australia to establish a base wage rate for the minimum wage and awards as required by S 285(1) of the Fair Work Act 2009 (the Act). The objective being to “establish and maintain a safety net of fair minimum wages by taking into account, “minimum wage objectives”.

The Commission is required to ensure that modern awards provide a fair and relevant safety net of terms and conditions inclusive of such matters as the living standards of the low paid, the encouragement of collective bargaining, the promotion of flexible workplace practices, equal work for equal pay.

The current award system has undergone numerous changes since award modernisation began in 2010 and often these changes have caused instability amongst employers who find their businesses impacted constantly by amendments that often come at an increased cost. Businesses are wanting an opportunity to grow their businesses but currently they are facing uncertainty, they fear that they will simply not be able to sustain their businesses in the face of so many hurdles, including the possibility of unsustainable wage increases.

Section 3(g) of the Act states that the Panel is required to acknowledge the special circumstances of small and medium sized businesses and the focus of MGA in this submission is to point out the difficulties currently being experienced by small businesses particularly in the retail sector. We will demonstrate that small to medium sized businesses contribute significantly to the economy and yet the difficulties they experience in sustaining their viability as businesses are often overlooked.

They simply cannot continue to withstand increased wages and award changes and remain in existence. Big businesses have the capacity to increase their income at a far greater rate, with more certainty and cope with wage and award increases. But small businesses simply cannot maintain their continued existence if some respite is not provided to them.

MGA 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. However, we will outline our arguments for the Panel to consider a minimal increase if it regards no increase as unviable and we therefore support an increase of no more than 1.2%.

The Current Economy

According to the Reserve Bank of Australia² current economic conditions in Australia had improved as at mid-2018. Wages were fairly stagnant although some growth was expected and unemployment was expected to decrease further, with inflation slightly higher. There was an expected growth in household expenditure, with stronger GDP in the September quarter. Some investment was expected in housing but with a gradual decline. It was noted that there is considerable investment in public works overall to accommodate an increasing population.

In a recent speech the Governor of the Reserve Bank³ summarised the state of the Australian economy. He said,

“The Australian economy is benefiting from strong growth in infrastructure investment and an upswing in other areas of investment. The labour market is also strong, with many people finding jobs. This year, we will also benefit from a further boost to liquefied natural gas (LNG) exports. The lower exchange rate and a lift in some commodity prices are also assisting. Against this generally positive picture, the major domestic uncertainty is the strength of consumption and the housing market.”

In further summarising the prospects for the economy he said,

“Our central forecast is for the Australian economy to expand by around 3 per cent over 2019 and 2¾ per cent over 2020. For 2018, the outcome is expected to be a bit below 3 per cent. This type of growth should be sufficient to see further gradual progress in lowering unemployment.”

2 [https://www.rba.gov.au/publications/smp/2018/nov/economic outlook.html](https://www.rba.gov.au/publications/smp/2018/nov/economic%20outlook.html)

3 <https://www.rba.gov.au/speeches/2019/sp-gov-2019-02-06.html>

He continued that the labour market outlook is positive particularly that we have the lowest unemployment rate of 5% in seven years and that should be sufficient to see further modest decline in unemployment to 4.3/4% in the future. Of further consideration is the ability to obtain credit and the Governor stated that this was an issue particularly for small businesses and he said,

“Over recent years there has been a needed tightening of credit standards. But the right balance needs to be struck. As lenders have sought to find that balance, we have had some concerns that the pendulum may have swung too far the other way, especially for small business”⁴

FACTORS IMPACTING ON THE ECONOMY

There are several factors pressing on the economy at the present time including slow wages growth, inflation, underemployment and unemployment and these are impacting particularly on small businesses.

Slow Wages Growth

Australia has experienced slow wages growth over the last few years although this depends on labour demands and varies according specific industries, decreasing unemployment and inflation rates. Over the years since 2017 there was significant private sector wage growth in arts and recreation, and personal services and health care rising to 2.6%. However, retail trade was among the lowest at 1.6%, being the closest to the lowest change of 1.4 % in mining in 2017.⁵

Wages growth has continued to be slow internationally and there have been several research authorities looking into the reasons for its slackness. The International Monetary Fund considered the reasons and blamed the labour market, inflation expectations and productivity growth.⁶

According to further research recently released by the IMF incomes are set to be at almost stagnation point unless there are significant economic reforms. A prediction of just 0.3% annually to incomes is likely over the next 4 years with an economic growth projection of 2.6%, below the Australian Treasury prediction of 3% and the Government prediction of 2.75%.⁷ To combat this difficult situation it was proposed by Stephen Anthony, Industry Super Australia, Chief Economist that Australia requires serious economic reform. He said, “We must raise the quality of spending and revenue measures through a suite of policies to tax, the labour market, infrastructure and how we run our organisations, otherwise our real living standards are not going to rise as much as we thought they would.”⁸ There is nothing that suggests large wage increases will resolve this weakness in the economy.

4 Ibid

5 www.aigroup.com.au/blog_aigroup.com.au AI Group Economics Research page 4

6 Ibid page 10

7 "Weak Incomes for years to come International Monetary Fund warns" John Kehoe AFR February 25th 2019

8 Ibid page3

Inflation

The level of inflation in Australia is currently 1.8% compared to 1.9% the previous month. The gradual drop in the in the inflation rate from 2.3% a few years earlier has resulted in a lowering of wages although this is reflected mainly in the private sector as opposed to the public sector where wages growth is much more positive.

It seems that employers in the private sector tend to use current and anticipated inflation rates in their wage increases negotiations and bargaining and Ai Group Economics⁹ quotes the Australian Government Treasury on this point as follows:

“Inflation expectations are important because wage setting decisions are forward looking and wages are typically negotiated infrequently. Thus, how firms and employees expect inflation to evolve over the period for which wages are set will influence wage negotiation. Lower inflation expectations are a cyclical drag on wage growth that is likely to abate as inflation picks up.”¹⁰

Interest rates are not expected to increase until 2020 and according to Shane Oliver from AMP because “we are not expected to see a rate rise until then there is little on the horizon to push up inflation”.¹¹

Underemployment

Underemployment is a serious and growing problem in Australia it generally refers to an employee who is employed but not in his/her desired capacity. The employee may be highly qualified wanting to work on a full- time basis and has skills that qualify for the equivalent salary. However, this employee generally works in a lower capacity, for lesser hours and at a lower rate of pay. An underemployed employee may be one who works in a part-time role for a limited number of hours because additional hours are unavailable.

Those who are under employed are naturally in competition with unemployed people often for the same jobs. According to the Australian Bureau of Statistics as at September 2018, Australia’s underemployment rate remained high at 8.3% but had reduced from 8.8% in March 2017. The ages between 15 and 24 constantly has the highest underemployment ratio.¹² Underemployment is a serious impediment to economic growth.

Small independent retailers constantly find themselves unable to provide additional hours of work to employees despite the employee desperately needing extra hours of work. A significant wage increase will further inhibit the ability of a retailer to offer the hours so desperately needed.

9 Supra AI Group Economics Research page21

10 Australian Government Treasury Nov 2017 Analysis of wage Growth p 22.

11 Shane Oliver AMP Capital Senior Economist www.news.com.au/finance/economy/australian-economy/giveaway-sign-australias-economic-engine-is-failing-tolaunch/news-story/0915f5c8

12 www.abs.gov.au/ausdtats/abs@nsl/Lookup/622.0mainfeatures10september2018

Unemployment

Unemployment can have a devastating impact on people's lives. It affects not just the unemployed person but also family members and the wider community. Unemployment can be long-lasting and if it does become protracted, its impact becomes more far reaching, Job losses impact on industry and is a loss of productive resources to the economy.

The effect of job loss in rural and regional areas flows through to the local community, damaging businesses as family expenditure is reduced. Further damage to local communities may result from people leaving their homes in search of work. The higher the number of people participating in the workforce or the more hours worked, the higher the potential output that can be produced.

Higher labour force participation can also reduce the financial pressures associated with providing welfare support as well as promoting social inclusion and equity goals. Maintaining realistic wage rates to ensure that people remain employed is an important consideration for the Panel so as not to jeopardise the ability of businesses to maintain and create jobs.

According to the Bureau of Statistics the unemployment rate remained steady at 5.1 %. In January 2019¹³, having dropped as low as 5% in late 2018, the lowest level in six years.¹⁴ It is anticipated that this would trigger an acceleration of inflation and wage growth, although this is expected to be a slow process.

The Australian Bureau of Statistics states that over 2017–18 full time jobs surged in most States with Victoria showing the greatest increase in the number of newly employed persons. Unemployment however did not fall in Tasmania where the rate remains steady at 5.8%, with NSW retaining the lowest unemployment rate of 4.4%.

Although it has been suggested that the low unemployment rate is likely to trigger wage growth it may not necessarily be the case. According to Paul Dales, Chief Economist of Capital Economics¹⁵ low unemployment will not mean increased wages and he cites three reasons and he said, "First we think the natural rate is closer to 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.

13 <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0>

14 <https://www.businessinsider.com.au/markets> "Australia's jobless rate falls to 5%, the lowest level in six years"
David Scutt author

15 Ibid Paul Dales Chief Economist of Capital Economics page 5

Youth Unemployment

The Brotherhood of St. Laurence in its many annual Reports has stated that “A prolonged period out of the workforce for young individuals places them at risk of a life sentence of poverty and exclusion from the mainstream of our society. An adequate living standard depends on having sufficient paid work. Unemployment is the chief cause of relative poverty and social exclusion in Australia. The social consequences of extended joblessness, especially for families, are considerable and well known”.¹⁶

According to statistics provided by the Brotherhood of St Laurence, “More than one third of all unemployed people in Australia are aged between 15 and 24 years¹⁷ In its Report titled ‘An unfair Australia’, the Brotherhood of St Laurence lists the ‘hotspots’ around Australia showing the rates of youth unemployment. The highest of 67.1% is in Longreach Queensland, with other levels across such places as Melton in Victoria with 18%, Wyong in NSW with 18.6% the Townsville area of Queensland with 18.1 %.¹⁸

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 conditions may reflect a ‘last in, first out’ practice.”¹⁹

Young people studying part-time may combine their studies with some work (generally part-time), and others may be studying full-time and not working at all (nor actively looking for work). 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.²⁰

Working as a casual employee in the local supermarket teaches young people a range of skills such as the need for regular and timely attendance at work, being able to work with people and gaining confidence. They earn a lower rate of pay but that usually satisfies their needs as having a job is a step in the right direction personally. The ability to offer those opportunities is welcomed by retailers especially in country areas where many people who go on to prestigious jobs, start their working lives. If higher wages are implemented it could result in only juniors being employed therefore excluding older workers or alternatively there will be no jobs at all for youth workers.

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

16 Brotherhood of St Laurence, *Australian Youth Unemployment 2014: Snapshot*, Melbourne, 2015, p 6

17 Brotherhood of St Laurence "Working for an Australia free of poverty 2018"

18 [https:// www.bsl.org.au/media/media-releases-revealed-nations-20youth-unemployment-hotspots-in-2018](https://www.bsl.org.au/media/media-releases-revealed-nations-20youth-unemployment-hotspots-in-2018)

19 Labour Market Outcomes for Younger People, *Reserve Bank of Australia: Bulletin June 2018*, pg 11.

20 Parliament of Australia, *Department of Parliamentary Services – Research Paper Series: Vandebroek*, 2017-18 pg 2.

21 Ibid at *Figure 1: Growth in youth*.

A useful variable for assessing estimates of youth unemployment is 'educational attendance'. This variable indicates a person's involvement in study or training and can be combined with their labour force status to analyse a variety of study/work scenarios. Educational attendance can be used to identify young people who are studying, so that an adjustment can be made to both the unemployed and labour force populations.²²

Improvement in this difficult situation in the immediate future is speculative and will depend on whether economic conditions improve.²³ "Even if the lack of jobs is cyclical and thus temporary, prolonged spells of disengagement from the labour market are known to have lasting effects.

Around 4 per cent of the youth labour force has been unemployed for between 3–12 months, and just over 2 per cent have been unemployed for over one year. The long-term unemployment rate for younger workers has risen over the past decade, although it was around double this share in the early 1990.²⁴

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. The 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 Retail Industry in Australia

Overall the retail industry is a significant contributor to Australia's economy and employment levels. 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.²⁵ Food retailing—the bulk of which in terms of turnover comes from supermarkets and grocery stores—accounted for around 48 per cent (\$108.2 billion) of total retail turnover in 2013–14.²⁶

22 Parliament of Australia, *Department of Parliamentary Services – Research Paper Series: Vandenbroek 2017-18* pg 5.

23 Labour Market Outcomes for Younger People, *Reserve Bank of Australia: Bulletin* June 2018, pg 1.

24 Ibid at pg 15.

25 Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade*, Research Report, Canberra, p 2.

26 Ibid p. 38

Approximately 95 per cent of all retail businesses are either non-employing or small businesses (1–19 employees).²⁷ 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.²⁸

The Australian retail sector, particularly independent supermarkets, employ 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.

As stated earlier in this submission, more than 115,000 individuals are employed in the independent supermarket industry across a variety of roles, and this represents a significant proportion of all employees employed in grocery retailing. Independent hardware/timber industry MGA members have approximately 5000 employees that include skilled workers and unskilled workers. The retail industry forms a critical component of the overall national economy. It has far reaching consequences for the economy because of the extent of the various forms of retail that it now encompasses.

No longer does it consist of the local corner grocery or hardware shop, a few special shops and a few department stores. There are now mega stores in every facet of retailing and their reach stretches far beyond the one aspect of sales. The convenience store has been challenged for over a decade now by the larger supermarkets and the small local hardware stores have been overcome by the giant retail outlets that sell everything from timber to gardening utensils. Everywhere they are now being confronted by hypermarkets.

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. Small businesses will participate in the internet race at some stage, but it is undoubtedly a question of having the financial ability to implement the process.

The retail sector has been affected by weak growth in wages and high household debt, although there has been a strong housing market, mainly due to low interest rates and growth in household credit, which has encouraged consumers to spend, as the perceived value of their assets have increased.²⁹

The retail industry is undergoing massive change at the present time. There is continuing change in the retail environment as new technology, competition and innovation vie for consumer attention. According to Jason Pollard, "The challenge with specific predictions is that these are susceptible to becoming obsolete fast. Future technologies are likely to make the current cutting-edge redundant, and the methods by which customers can customise products are likely to look very different in the future".³⁰ It is not a phenomenon

27 ABS, *Counts of Australian Businesses, Including Entries and Exits*, June 2010 to June 2014, April, Canberra, Catalogue No. 8165.0

28 ABS, *Labour Force, Australia, Detailed, Quarterly, Nov 2014*, Catalogue No. 6291.0.55.003.

29 <https://www.euromonitor.com/retailinginaustralia/report>

30 "Wants really driving the future of retail? Jason Pollard Lecturer of Marketing Swinburne university of technology July 18th, 2018

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. Their sheer size has drawn customers who want to see change and greater innovation in stores. Now what we perceive as “large stores” are being threatened themselves by the threat of hypermarkets from Europe.

Already we have seen the presence of Kaufland, one of the largest hypermarkets in the world arrive from Europe. Kaufland is about to make its footprint in Australia and its impact will soon be felt in Victoria and South Australia. Kaufland has purchased large areas of cheaper industrial space in South Australia and in Victoria to be followed no doubt in other parts of Australia.

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 one of the defences is to be able to afford the wages.

Online sales of groceries are taking its toll on smaller stores. The delivery of pre-cooked meals is becoming more prevalent with the arrival of Uber Eats and of course on-line sales are signs that unless retailers prepare themselves to cope with these new trends then their businesses will be marginalised and eventually cease to exist.

Any change comes at a cost and unless there is the financial resource to support innovation and yet maintain commitment to those who help retailers to meet the obligations then businesses will close. Increasing wages will not assist retailers in their battle for survival. Unless there is a realistic approach to what a small retailer can afford then jobs will cease to exist and businesses that are a major source of employment will simply disappear.

Small to medium sized businesses play a major part in the economy. It is easy to overlook the importance of small businesses, as their significance tends to be overshadowed by the power that larger businesses can generate in the business world, simply by virtue of their size. In realistic terms the significance of smaller businesses cannot be underestimated. The importance of small businesses to the Australian economy is significant. As referred to by Business Insider Australia, “There are more than 2.2 million small businesses in Australia. They consist of half the Australian workforce and contribute to one fifth of GDP. When small businesses thrive so does the economy creating more jobs and revenue.”³¹

Small businesses are the engine room of the economy and they employ over 40% of Australia’s workforce. paying approximately 12% of total tax revenue.³² The retail industry,

31 Business insider Australia Research Westpac small business

32 Small Business Counts” – Australian Small Business and Family Enterprise Ombudsman, -Small Business in the

as distinct from other private sector industries, employs a high proportion of award reliant employees. The Commission's Research Report 1/2017³³ 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 cost of doing business is an ever an increasing concern for retailers and the fact the industry is also facing significant changes into the future will make managing a smaller business even more difficult.

The Independent Retailer within the Retail industry

Independent retail outlets vary in size, some operate as very small businesses and fit the true definition of a small business as having under twenty employees. Many Independent supermarkets have grown their businesses and are now able to boast a much greater number of employees, although they remain significantly smaller beside their larger rivals.

More than 115,000 individuals are employed in the independent supermarket industry alone, either on a full-time, part-time or casual basis, and working across a seven-day working week. Given that almost 285,000 people are employed in grocery retailing (including supermarkets) accounting for almost one-quarter (23.9 per cent) of all retail industry employment in Australia.³⁴

The independent retail sector has struggled with determination to fight competition from all new rival sources and they are realising that they will need adapt to change but they will only be able to do so if the major part of their costs, which is wages, is maintained at a level they can afford.

Despite struggling for survival against the likes of Coles and Woolworths, small independent supermarkets play a fundamental role in the communities in which they operate. They are heavily committed to supporting their employees, many of whom include working mothers, tertiary students, school children, trainees and apprentices. Further, independent supermarkets are a key means for developing transferable job skills (e.g. interpersonal and communication skills) which enable employees who work in the industry to better enhance their abilities and qualifications, thereby contributing to social and economic participation.

The flexibility which they offer by way of employment options—offering both permanent and casual positions—as well as providing opportunities to those who wish to aspire to managerial levels, denotes their importance in encouraging and increasing labour force participation.

Australian Economy Commonwealth of Australia 2016 Page 6

33 Fair Work Commission Award Reliant workers in the household income distribution Carlos Jimenez and avid Rozenbes February 2017 page 14

34 ABS, *Labour Force Survey – Detailed Quarterly – May 2013*, Catalogue No. 6291.0.55.003, Data cube E06, Employed Persons by Sex, Industry, State, Status in Employment.

Independent retailers enhance competition and consumer choice which is fundamental in Australia, and this is particularly significant in supermarkets where there is strong market concentration. Independent supermarkets have variable price merchandising, product selection, convenience and customer service, and offer customers a different and more distinct experience in grocery shopping.

The ability for small independent supermarkets and liquor stores to compete is hindered in an environment where heavy discounting practices have become a common practice instituted by the chains. Unlike their large chain counterparts, independent retailers cannot implement cross-subsidisation mechanisms as many of these retailers are single store owners. Additionally, their reliance on the GRIA means they are susceptible to any wage increase which has the effect of increasing the magnitude of penalty and overtime payments.

Wage increases in Award-reliant industries such as the independent grocery industry will inevitably impact on the national economy. If a large increase occurs to the GRIA, and other awards such as the Timber Industry Award, retailers will reluctantly need to decide whether the store can afford to retain staff. The supermarket industry in Australia is highly competitive, and intense competition, makes the task of meeting higher wages extremely difficult when their rivals have enterprise agreements. The competition is made more intense by the ability of the chain stores, such as Coles, Woolworths and Bunnings to utilise their buying power to open new stores that causes many smaller retailers to simply close.

Despite the inclusion of the “effects test” in Section 46 in the Competition and Consumer Act (2010), the continued ability of larger enterprises to expand still takes its toll on more vulnerable entities. As wages increase and the cost burden becomes more demanding smaller businesses become unable to cope with the pressures of increased wages and the loss of market share.

Because a significant number of independent retailers and MGA members are reliant on the awards, MGA seeks 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 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.”³⁵

35 [2010] FWA FB 4000, 291.

It is interesting that this comment was made nearly a decade ago and that the significance of the statement remains relevant. Increases to the award rates of pay effectively magnify the labour costs associated with retail businesses which puts a further strain on their operations.

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.

Local businesses also make a major contribution to their local communities. Generally, many small to medium businesses contribute significant amounts of money to their local communities. It is estimated that between 2015 and 2016 they donated \$8.5 million to community organisations because they wanted to demonstrate their commitment to their local community and a personal connection to a cause.

Small business owners in the independent retail sector often earn less income than their employees – despite working longer hours, having more experience, and making significant capital investments. Operating a business is not devoid of significant psychological stresses which will only be compounded by rising wage costs. Owning and operating a business comes with a substantial liability, and for many MGA members, if an analysis was undertaken between the hours invested in working in their store and the profits yielded at the conclusion of each week, many retailers would be found to be earning below the national minimum wage or the minimum modern award wage.

In addition to the difficulty of coping with increased wages and penalty rates costs another of the fastest growing problems for the independent retail sector is the cost of energy. Over the past 3 years MGA supermarket, liquor and hardware members have experienced unprecedented debilitating energy cost price increases affecting the viability of their businesses. Electricity costs have become the second largest cost to do business after wages, with rental and leasing costs being relegated to third.

MGA members enter into electricity contracts for a fixed term based upon a tender process after making a choice of the most cost- effective electricity usage contract option. Over the past 3 years members electricity contracts have expired and new contracts have been sought by MGA members by way of tender.

Previously electricity contracts provided affordable costs per kilowatt consumed but now they have become the most significant and debilitating cost of doing business owing to the significant electricity cost increases across the nation.

Gross margins in grocery, retail and hardware are razor thin. Prices cannot be increased to absorb the unsustainable electricity price increases owing to the challenges of competition from large and multi- national retailers such as Coles, Woolworths, Bunnings and Aldi. MGA grocery members are particularly high users of electricity as they must

operate their “energy hungry” cool-rooms, refrigerators, freezers, lighting, heating and ventilation and point of sale systems to open their businesses to consumers every day. Despite MGA members best efforts to establish energy saving systems in their stores, investing in new and more efficient equipment and installing solar energy solutions energy costs continue to challenge their profitability and viability.

MGA has dealt with several cases where rising electricity costs have caused members to consider closure as energy retailers threaten to stop electricity supply.

Another trend in recent years is the introduction and prevalence of self-service checkouts in the chain supermarkets. This results in increased productivity levels from a purely statistical point of view. However, the capacity for independent retailers to adopt these mechanisms is limited. Self-service checkouts result in a reduced number of retail jobs. Any apparent improvement in aggregate labour productivity does not automatically translate into an immediate capacity to increase award wages more rapidly, particularly if the statistics are being generated from retailers that are phasing out the human element associated with customer service.

There has been a decline in the number of enterprise agreements in the independent retail sector. Eight to ten years ago MGA assisted many employers to enter into enterprise agreements prior to the finalisation of award modernisation. At that time there were numerous awards in existence which had become extremely complex in many aspects and the availability of a simple agreement was an attractive option for retailers. The complexities afforded by the outmoded award system was referred to in the research undertaken by the Fair Work Commission,

“As an indication of the complexity, in 1997 there were 1745 Federal and 656 State awards in just South Australia, Tasmania and Western Australia and the award for TCF workers specifies over 700 separate job classifications ... Even with the shift to the modern award system in the 2000s, there remain 122 modern awards, generally with many different minimum wage rates specified in each award.”³⁶

A problem facing many independent retailers who made enterprise agreements prior to award modernisation is that they continue to rely on those agreements as they cannot afford to undertake new agreements. One reason is the stringent penalties that now exist in the General Retail Award that would apply to them if the agreement was terminated. They are also reluctant to attempt to enter into a new agreement as they are not in a position to meet the demands of the “better off overall test” that must be passed before an agreement can be reached. Any new retailers who enter the supermarket sector are reluctant to make enterprise agreements as they know the barriers of the better off overall test and they opt to use the General Retail Industry Award.

36 “A review of methods applied in international research of the employment effect of the minimum wage and implications for Australia” Research Report 4/2018 Jeff Borland, Department of Economics, University of Melbourne February 2018 Page 2

The research report, “Employee and employer characteristics and collective agreement coverage”³⁷ found that collective agreement coverage is highest among medium to large employers, but they counted any employer with more than 20 employees as part of the medium to large group. The larger employers in the independent supermarket retail sector are Coles and Woolworths who have been using enterprise agreements from as early as the late nineties.

As previously mentioned, although some independent supermarkets have agreements, the majority of retailers in the independent sector are award reliant. A relatively few independent retailers would have numbers of employees consisting of 100 employees or more and they would not be considered as small, but they do they fit into the large category of either Coes or Woolworths.

The independent supermarket sector is an industry that struggles with any increase in wages. In the independent retail sector, a retailer wanting to employ a seventeen-year old casual supermarket assistant on Sunday will have to pay \$23.07 an hour, and on a public holiday that will be \$31.18 an hour. A 20-year old casual who works for more than six months will receive \$38.46 an hour on Sunday and on a public holiday will receive \$51.98 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.

A further problem for independent retailers has been the introduction of casual conversion, and despite the success of the slowly reducing Sunday penalty rate, the recent increased impost of casual overtime penalties all present difficulties for small independent employers. The prospect of a further wage increase in addition to the 3.5% increase that was awarded in 2018 would seriously damage the ability of many retailers to maintain their businesses and MGA 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 of more than 1,2% is introduced in 2019.

Furthermore, there is the looming fear associated with the recent Skene case³⁸ where a regularly employed casual was declared to have an entitlement to annual and sick leave. If the decision in this case is applied to the thousands of casual employees employed in the retail industry the result will be devastating for employers. The devastation would impact the entire retail industry.

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

37 1/2018 David Peetz (Griffith University and Serena Yu (University of Technology Sydney) February 2018

38 Workpac Pty Ltd v. Skene (2018) FCAFC131

THE GROCERY SECTOR

There have been foreign influences that have tested the retail markets in Australia over the last decade. Aldi has taken hold in Australia and in 2016 that Aldi started opening stores in South Australia and Western Australia. Today it has "500 outlets operating around Australia and has roughly 13% of the Australian supermarket industry. Aldi's gain in market share has overwhelmingly come at the expense of the smaller, independent supermarkets – IGA-affiliated, as well as others".³⁹

It seems that Aldi's offer has a certain appeal to customers who like the lower prices and are prepared to, "readily accept Aldi's highly restrictive range, the lack of manufacturers' brands, and austere stores with minimal service at the cash register or in store."⁴⁰ The independent grocery sector accepts that competition is an inevitable part of doing business and retailers cope with competition on a daily basis but, if small businesses are gradually eliminated then there will be no competition and consumers will face increased costs.

Coles and Woolworths hold their position against newcomers but the threat to small independent retailers remains significant. The newest major threat was expected to be Amazon but to date its threat to the supermarket industry is minimal. The more recent threat to the independent sector is Kaufland, the fourth largest retailer in the world. The German hypermarket giant has already purchased industrial zoned property in South Australia and is seeking to establish six large mega stores on the steps of many small independents in Victoria who risk being eradicated by the new arrival. The prospects of maintaining their businesses is for these small retailers highly unlikely unless there is government intervention.

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 is likely to be difficult.

MGA 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 awarding a minimal wage increase to the GRIA of no more than 1.2 per cent.

³⁹ Aldi's Australian growth will soon reach its limits Tom Osegwitech (Mebourne Uni and Angela Mc Cabe) LaTrobe University Aug 2018

⁴⁰ Supra

THE TIMBER AND HARDWARE SECTOR

There are several issues facing the timber and hardware 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, in some cases, micro-management adding further cost to the business.

The high cost of fuel is a major cost to small to medium sized timber and hardware businesses. The cost of diesel has increased more in the last 12 months and gap is getting wider. The industry has also had to contend with the amendments to the Heavy Vehicle National Laws late last year 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 Effect of a Substantial Wage Increase on Independent Retailers

In his recent speech to the House of Representatives Standing Committee on Economics, the Governor of the Reserve Bank spoke about world growth and how international trade growth and improvement in commodity prices have assisted the Australian economy. He said, "The stronger economic growth has resulted in unemployment rates falling further. ... Inflation has remained low, partly reflecting the fact that wage growth has been quite subdued despite the unemployment rate. Low inflation has meant a low interest rate. And for much of the past year, volatility in asset prices was also unusually low."⁴¹

There is no doubt that big businesses are doing well and that their shareholders are reaping the benefits. Big businesses argue that they cannot increase wages because the market is so competitive. Unfortunately, that doesn't ring true with many economists and there is a push to suggest that wages need to be higher. If profitability is growing strongly

⁴¹ Opening Statement to the House of Representatives Standing Committee on Economics – Phillip Lowe Governor of the Reserve Bank of Australia – Sydney 16th February 2018 <http://www.rba.gov.au/speeches/2018/sp-gov-2018-02-16.html>

then it seems there must be some sectors of the economy that can afford to increase wages but that does not apply to small businesses.

Wages have increased just 2% on an annual basis. For low to middle income earners that is not easy to accept because the level of household debt is increasing with commodity price rises and the exponential growth in energy costs. Interest rates are still relatively low but there is the potential for an interest hike in the future. The UK has increased its interest rates and it is expected that other countries will follow suit.

According to Stephen Kinsella⁴² when debt levels are high people need more money in their pockets to deal with reducing their debt burdens. He offers some solutions to solve the problem including reducing taxes, together with tax reform, making the cost of living cheaper, or increasing wages and suggests that increasing wages, "is not only feasible and justified, it is in the national interest."

Although it may seem that a wage increase is the easiest option to assist with household debt and commodity price increases yet Dr. Phillip Lowe believes that wage growth is 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."⁴³

Whilst some pundits believe that an increase in wages is the best solution, but at what cost to small businesses? The larger businesses will be able to afford a wage hike even though it may be moderate, but consideration must be given to smaller more vulnerable businesses that will not be able to cope with a wage increase of anything greater than a very small percentage.

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.

As part of preparing this submission, MGA conducted a survey of its 2,500 members in January to February 2018 to obtain tangible evidence on a range of issues including ascertaining the impact of a wage increase on members' operations, and the impact of the 3.5 per cent in July 2018 on their businesses.

The member businesses that responded to the survey range from businesses with employee numbers ranging from 1–20, 1–45 and 1–100.

The survey was voluntary and conducted anonymously, which strengthened its integrity and allowed for increased honesty in the responses. By way of a summary, the survey produced the following results to questions put to the members of MGA:

42 Stephen Kinsella Research fellow School of Government, University of Melbourne "Increasing wages would make the Australian economy safer" November 16 2017. <https://theconversation.com/increasing-wages-would-make-the-australian-economy-safer-87182>

43 Dr Lowe Reserve Bank Governor. March 6th 2018 – Interest rates on hold

SURVEY RESULTS

Q: What issues had an adverse effect on your business impact after the 3.5% July 2018 wage increase?

Wages and Penalty rates had the most severe impact on businesses just below the impact of increases to casual rates on weekdays and Saturdays in the Retail award.

Q: What impact did the 3.5% wage increase on July 1st, 2018 have on your business?

Numbers of permanent staff were not increased that was followed closely by the business suffering a reduction in profits and a reduction in the employment of casual staff.

Q: Have any of the following issues affected your business operations during the last 12 months, and if so, to what extent?

In the grocery sector by far the most severe effect was the cost of energy. with licensing issues, competition and increases in the rates for 20-year old employees also regarded as severe in both the retail and hardware and timber sectors.

Q: Under what workplace instrument do you pay your employees?

Almost all employers utilise the Modern Awards.

Q: If there is an increase to wages in 2019 what steps would you take?

Overwhelmingly, the response was to reduce staff numbers.

Q: What wage increase, if any, would you find acceptable for your business in 2018?

There was a strong view that there should be no increase at all in the wage rate on 2018. There was a view that an increase consistent with CPI was an option, the other alternative was an increase of 1.2%.

Q: What current economic factors are of concern to you from a business perspective, and to what extent?

In order of the greatest effects, the responses were energy costs, competition, sales performance, superannuation, award changes, payroll tax and red tape all having a significant effect on their businesses at the present time.

Q: Do you consider online trading as a threat to your business?

Over 65% answered Yes.

Q: Do you offer online trading services to your customers?

80% replied No.

Q: If you could offer online services to your customers would you provide that service?

52% answered Yes.

Q: Grocery members only were asked — Do you offer self- service checkout to customers?

3% answered Yes. Balance answered No.

Q: *Grocery members only were asked* — Would you offer self-service checkouts if you had the choice?

70% replied No.

The ongoing viability and prosperity of businesses, particularly small businesses in award-reliant sectors, must be at the forefront of the Panel's deliberations as it is the employer that must invariably fund any wage increase. With labour market conditions weak and as unemployment levels remain high a greater sense of value must be placed on job creation. Having a higher national minimum wage and award rates in place becomes meaningless if the jobs that pay them disappear and the opportunities for recruitment dry up.

Increases in labour costs associated with wage increases in recent years have been borne by small businesses as opposed to their large counterparts (e.g. Coles and Woolworths) whose operations are governed by enterprise agreements with favourable penalty rates. The discriminatory nature of the award modernisation process ultimately exposes the difficulties faced by small businesses and places them at the mercy of the Panel's wage decision.

The fear of a future wage increase by small independent retailers cannot be underestimated. There is a clear indication in their responses that another increase comparable to the increase of 2018 would have a disastrous impact on their ability to survive in the industry.

Accordingly, if the Panel does decide to award an increase to the national minimum wage and modern award wages, then it should be modest, and taking into account the over-compensation provided in past decisions.

The Future for the Independent Retail Sector 2019-2020

MGA's submission for the Panel to implement a wage increase of no higher than 1.2 per cent is influenced by the uncertainty that Australia and many other countries are facing at the present time.

Despite the expectation that the Australian dollar would fall this year, it has fallen but not as low as was expected. This must be attributed to the changes that are being felt across the international political spectrum. The Australian dollar is now 70 US cents due in no small way to the impact of the recent economic decisions made around the world in the United States and in Europe.

Australia's consumer price inflation edged down to 1.8 percent year-on-year in the last quarter of 2018 from 1.9 percent in the previous period and above market expectations of 1.7 percent as at January 2019.

Many factors are impacting on the economy at the present time as the United States adopts a policy of protectionism. There is uncertainty in the United Kingdom, as it moves headlong within an undecided Brexit and other countries looking to exit the EEC may impact on our domestic market, but that is all yet to be determined.⁴⁴

Domestic retail sales market remains slow moving. There is increased tourism to Australia and this will no doubt provide some assistance to the markets. Unfortunately, this does not necessarily assist the supermarket grocery or timber and hardware industries where the competition remains extremely high. Not only are independent retailers forced to compete against the might of larger stores such as Coles and Woolworths and Bunnings but also the growth of the overseas stores now in the market, namely Aldi, Costco and Kaufland. Whilst independent retailers remain competitive it makes their ability to cope with increased wages more difficult.

To maintain the expected growth in employment and demand, MGA is proposing a modest increase in the minimum wage to allow businesses to continue to confidently engage new staff. Past significant wage increases have created uncertainty in the retail sector and employers remain cautious about the future.

MGA submits that there are considerable challenges facing retailers and seeks that a degree of caution be exercised in respect of increasing wages for the next financial year. The impact of higher wages in one of the most important sectors of the economy has the potential to have a detrimental effect on Australia's improving financial conditions. Therefore, MGA wishes to reiterate that a modest increase of 1.2 per cent will help protect the gains in the Australian economy while ensuring job security and growth within the sector.

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Conclusion

Independent supermarkets have been challenged throughout the last financial year with increasingly unfair competition within the industry. Our members have worked tirelessly to cope with the challenges of award changes including the introduction of overtime rates for casuals and casual conversion to permanent status.

Our members' stores 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 two years our members have coped with two significant annual wage increases. The increase in 2017 was 3.3% and the increase in 2018 was 3.5%. Therefore, the combined impact of 6.8% in the space of two years has resulted in extreme hardship for MGA members and an increase similar to the last two years will have devastating consequences, particularly in terms of employment in the industry.

As a result of wage increases, MGA 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.

MGA urges the Panel to consider these factors and not award an increase to wages in 2019 in excess of 1.2 per cent, to allow independent supermarkets, liquor, timber and hardware stores to remain viable and serve as a staple source of employment in Australia.

MGA 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 2018–19.



Jos de Bruin

Chief Executive Officer
MGA Independent Retailers
Master Grocers Australia
March 2019