



SUBMISSION TO THE LOW PAY COMMISSION ON THE FUTURE LEVEL OF THE NATIONAL MINIMUM WAGE

INTRODUCTION

The Rural Shops Alliance is a national trade association representing the views of about 7,500 rural shops. Although they cover a broad spectrum, a majority of them are convenience stores trading in villages or very small towns. Often a post office is also runs the premises. Most are family businesses, with the owners working alongside their staff on a day-to-day basis.

The general nature of our comments are similar to those we have made in previous years as the fundamental issues remain very much same.

THE EFFECTS OF THE NATIONAL MINIMUM WAGE

The impact of the national minimum wage on employment patterns has gradually increased over the years within our sector. When it was first introduced in 1999, the cautious start, with the NMW set at a very low level, meant that the vast majority of staff were paid comfortably above that level. In our part of the retail sector, that is no longer true. Most of the retailers we talk to consider it quite important to pay staff above the NMW, even if only by a few pence per hour. It sends a message to staff that they are valued and that the employer is not trying to exploit some by paying the absolute minimum.

New staff may be paid at or near the NMW. However, what has happened year after year is that the pay scales above them have contracted. More senior and experienced staff, including supervisors, are being paid much less of a premium than used to be the case in many stores. The pay increases given to such staff have been kept in check and in many cases have been less than inflation. This flattening of pay scales is not desirable. It is not fair to staff for their additional skills and experience not to be fully rewarded. It also makes work in our particular sector less attractive compared with other jobs.

The NMW obviously does not apply to the owners of shops themselves. It is quite normal for a husband-and-wife team to both be working 50 hours or more in their shop, taking a few days off and only taking infrequent holidays. Of course they do not usually think in terms of what they are able to pay themselves per hour. However, if this calculation is carried out, it is very common to find that although their staff are earning more than the national minimum wage, the proprietors themselves are only earning four pounds an hour or even less.

It goes without saying that part of the concept of the national minimum wage is that it will not significantly influence the structure or balance of the economy. In our particular part of the retail sector the national minimum wage is at a level where it is altering the way that the retail industry operates. One obvious example of this is that over the years staff employment has been contracted in many retail businesses to the absolute minimum. If a

member of staff is off sick or on holiday, the proprietor provides cover themselves. Paying holiday pay and also the wages of a replacement member of staff is quite simply something the business cannot afford.

As an example, when an applicant wishes to take over a post office, they have to fill in a very comprehensive business plan for post office limited. This plan has to show that the business, usually combining a shop and post office, is financially viable. We have encountered several examples where the only way the applicant can do this is by building into the plan that they will work for far less than the national minimum wage, despite the fact that they are paying the staff working for them at NMW. This in turn clearly affects the calibre of people applying for such vacancies and how the business is run once they are in post.

. We believe that the NMW at its current levels has:

- closed up wage differentials within the industry
- Created a situation whereby many shop owners are working excessive hours for very low rates per hour, thus discouraging some new entrants into the industry.
- Reduced profitability in certain parts of the sector to the extent that proprietors are unable to fund desirable capital investments in the businesses.

Illustrative figures

The gross profit margin in our part of the retail sector is usually about 20%, with the vast majority of our convenience stores working within the band 15% to 25%. Typically, the cost of staff wages make up about 10% of turnover – a huge proportion of total costs. Other costs such as rents, rates, electricity and consumables usually make up 5 to 6%, leaving about 4% as the net profit figure.

It is obvious that any change to the wage bill has an enormous impact on the bottom line. Quite simply, keeping the cost of staffing under control is crucial to the success of the business.

Staff productivity

The potential for improving staff productivity is clearly limited within our sector. Indeed, the pressures from customers for longer opening hours (coupled with changes to the post office contract for some outlets, which insists that the post office counter is open much longer) is tending to spread the same amount of business over more trading hours.

Small retailers have very limited potential to increase staff productivity through increased capital investment, better staff training or even cutting back on customer service. A few retailers are now reverting to a traditional trading pattern, closing for a late lunch period, when customer numbers are fewest. The key driver for this change is to save on the wages bill.

STAFF RECRUITMENT

Rural retailers are experiencing no difficulty whatsoever in recruiting good quality staff for vacancies at wages at or slightly above the national minimum wage. This includes part-time work and shifts at relatively unsocial hours,

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The pressure to move to a higher standard has received significant political traction in recent months. We would emphasise that the vast majority of our members would like to be in a position to pay their staff more. These are people living in the same community as their staff. They work alongside them, send their children to the same schools and know full well that what their staff say about them in the pub on a Friday night can have a significant impact on their standing in the community and their business. They need to be seen as responsible members of the local community.

Unfortunately, we are dealing with a relatively low productivity, low-wage industry. Increasing wage rates by a conservative 10% to bring them to the living wage would devastate our sector. Given that wages are about half of total business costs, this would increase costs by the equivalent of 5% of turnover, driving most rural convenience stores to a breakeven or even a loss position, with no obvious remedial action. Competitive trading means that price increases to cover this cost would be difficult to achieve without detriment to the business. You could argue that businesses unable to pay a “living wage” should be allowed to go to the wall – that's capitalism. In practice the result would be more rural communities without access to a shop and the vital village resource it represents and less rural employment. With unemployment and underemployment as they are, with most shopkeepers having no difficulty recruiting good staff at the wages on offer, then it would seem better to retain even low paid rather than increase wage rates.

The Business Secretary, Vince Cable has asked what economic conditions would be needed to allow the National Minimum Wage to rise by more than current conditions allow. We would argue that it is quite legitimate to want to increase wages in industries that can afford them. However, the National Minimum Wage does what it says on the can – it is an absolute minimum that applies across-the-board. If further refinement is needed, then the answer is to reinvent the industry by industry arrangements that used to exist. But for small retailers, the position is quite clear. Too great an increase in the NMW would harm real businesses and real jobs.

In our context, staff do appreciate working locally without a time-consuming and expensive commute, offsetting the fact that sometimes their actual wage rate per hour is somewhat lower than might be earned in the nearby town. Equally, many of them value the ability to work hours that fits around family commitments, such as delivering in collecting children from school. Satisfaction with a job is more than just the wage rate.

OTHER EMPLOYMENT COSTS

In the past, we have commented on the increased holiday entitlements that staff receive. The right to request flexible working continues to be extended to wider groups of workers, whilst the government is in the process of reforming pension provision, particularly for

lower paid workers. Although in itself a good thing, this is yet another cost of employing staff.

CONCLUSION

Based on the needs of our sector, we would recommend that the continued requirement to support levels of employment outweighs the ambition to increase standards of living in the economy. We would suggest that the NMW increase should be in line or marginally below the rate of inflation for this year.

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