NATIONAL LIVING WAGE PROJECT

THE REAL COST OF EMPLOYMENT

A paper from the University of Stirling and Scottish Grocers' Federation

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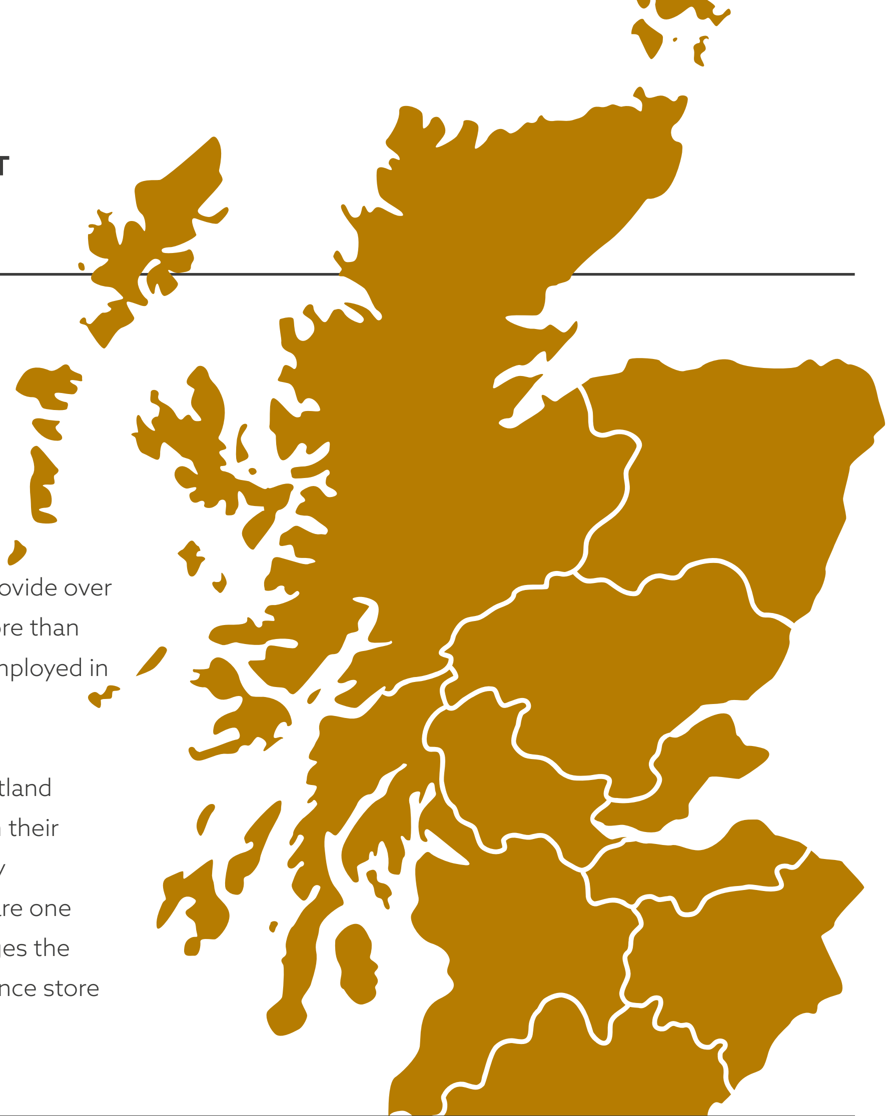

There are **5,171** convenience stores in Scotland.

Convenience stores provide over **49,000** jobs. While more than **258,000** people are employed in retail across Scotland.

In 2023 retailers in Scotland invested **£62 million** in their businesses. Constantly increasing staff costs are one of the biggest challenges the independent convenience store sector faces.

£15.39 PER HOUR

The rate of the NLW for 2024 is £11.44. With the addition of a range of on-costs, the real cost of employment for convenience retailers will be £15.39 per hour.

The retail sector has been one of the most significantly impacted areas of the economy by the National Minimum Wage (NMW) and the National Living Wage (NLW).

Smaller firms are proportionately more affected by the NMW and the NLW than larger firms.

In Scotland over 79% of staff in C-stores are in the 25 year old and above age range – which falls within part of the age range impacted by the NLW (which is 21 years and above).

Sources: Scottish Annual Business Statistics 2021 & Scottish Local Shop Report 2023

It has been suggested that this will be the first UK Parliament in modern history which, across its tenure, the living standards of the country will have declined. Whilst it is claimed that the cost-of-living (and the cost-of-doing business) crisis has receded somewhat as energy prices and inflation have fallen, for many businesses and consumers it really doesn't feel like that. A reduction in inflation is not the same as a reduction in costs or prices. People feel worse off and many aspects of daily life, and indeed the country as a whole, are degraded and often don't work.

The retail sector has borne a considerable burden in this. When prices are rising well beyond incomes, it becomes easy to accuse retailers of profiteering. However, any analysis of the cost of doing business shows that input costs have spiked, as well as inevitably output costs and prices. Whilst some cost pressures may have reduced, they certainly have not gone away.

For convenience retailers operating their business is tough at the best of times, which this is obviously not. Beset by the ravages brought on by Brexit, the Covid pandemic and the war in Ukraine, convenience retailers (like many in the wider sector) have also had to deal with a terrifying rise in retail crime (see the SGF Retail Crime Report). Staff and managers/owners report being afraid of going to work and are often in despair about the levels of violence and theft/loss and the police inactivity. This context matters as it appears that getting staff to work in convenience stores is becoming more difficult and existing staff and managers/owners are having to cover more hours or reduce shop opening hours.

In the wider sector, major retailers have announced a steady stream of pay increases for shop staff, often above the National Living Wage, reflecting the tightness and volatility of the labour market. There are cost efficiencies that large retailers can bring to their operations which better enable this, but the surge in activity shows the pressures in the labour market in the sector. Technological solutions are also increasing, but again the cost outlay is high and may not be affordable (or desirable for many).

Convenience and independent retailers find it harder to cope with large increases in the National Living Wage, despite their recognition of the need to reward staff for the jobs they do. This is the ninth year that we have looked at the true cost of employment and again we see the pressures on the sector. The table shows that the increase in the National Living Wage from the 1st of April 2024 to £11.44 per hour (an increase of £1.02 or 9.8%) leads directly in our calculation to a true cost of £15.39 per hour for the retailer. That is an increase of £1.39 per hour or 9.9%.

In the table we have kept the relationships the same as in previous years. We did test these with a sample of retailers and saw considerable variation, more so than in previous years. There seems to be upward pressures on costs across the board and in some stores difficulty in attracting and keeping staff leading to more expense on additional benefits to retain staff. Human resource, administrative and recruitment costs especially may also be rising rapidly and are likely to be an underestimate in the table, as so may be costs on lunch and uniforms. We have increased only slightly these in the table as the sample of retailers is small and there are large variations. It is likely though that our figure of £15.39 per hour real cost of employment is now an underestimate, and possibly by a couple of pounds.

There does come a point when the cost and management of labour, plus the extreme challenges of actually operating local convenience stores ceases to be viable as a commercial or a lifestyle proposition. If we value the 'glue' that local convenience stores provide to communities then we need to show this value to them. Whilst increases in the National Living Wage benefit retail workers and arguably retailers, the true cost of this on local retailers needs to result in other financial adjustments and incentives to keep them operating successfully.

	Components of the Total Pay Cost	National Living Wage after 1st April:				
		2016	2019	2022	2023	2024
1	Wages	7.20	8.21	9.50	10.42	11.44
2	SSP (statutory sick pay)	0.53	0.60	0.70	0.77	0.84
3	NI Employer	0.24	0.27	0.45	0.49	0.54
4	Pension Enrolment/Scheme	0.01	0.25	0.29	0.32	0.35
5	Statutory Holiday Pay – coverage staff	1.00	1.14	1.32	1.45	1.59
6	Uniforms	0.04	0.04	0.05	0.06	0.06
7	Other Statutory Payments	0.07	0.08	0.10	0.11	0.12
8	Lunch Benefits etc.	0.03	0.03	0.04	0.05	0.06
9	Recruitment costs	0.02	0.02	0.04	0.05	0.06
10	Administration and accounting costs directly related to employment (including software)	0.05	0.06	0.14	0.15	0.17
11	Death in service benefits/critical and terminal illness cover	0.04	0.04	0.05	0.05	0.06
12	Private health care	0.04	0.04	0.05	0.05	0.06
13	External Health and Safety Compliance advice/external HR and employment law advice	0.01	0.01	0.02	0.03	0.04
TOTAL		**9.28**	**10.79**	**12.75**	**14.00**	**15.39**

(This data was produced by Dr Maria Rybaczewska at the University of Stirling)

SGF MEMBERS SURVEY 2024:
IMPACT OF PROPOSED INCREASES TO NLW & NMW

75% of retailers say wage increases will have a significant impact on the viability of their business

90% say they are less likely to hire new staff due to wage rises

74% say they are working more than 65hrs per week to keep wage costs down

(All survey figures are based on information provided by respondents, and not necessarily representative of all SGF members.)