Discuss how this new minimum wage will impact on the retail industry in the UK

Since its initial introduction in 2016, the national living wage (NLW) has had various impacts on the UK's retail industry, including job losses at many of the largest retailers to cut costs (Rodionova, 2017). However, the effects so far appear to have been less severe than what early predictions suggested, with insignificant impacts on profits, despite the considerably higher minimum wage (Edwards, 2017). This essay will argue that the NLW will have a negative impact on the retail industry overall as businesses are forced to find ways to mitigate the effects of increasing employment costs; it is likely that a significant number of retail workers will suffer the risk of losing their jobs to ensure sustainable profit margins are maintained. The Government aims for the NLW to reach 60 per cent of median hourly earnings, about £9 per hour, by 2020 (Office for Budget Responsibility, 2015), so as the minimum wage rises the impacts will become clearer.

The increasing NLW has prompted retailers to look at ways in which labour costs can be minimised. So far, this has involved a number of redundancies, with at least 3,700 jobs cut at the largest retailers in the first three months of 2017 (Vandevelde, 2017), and changes with regards to staff benefits. For example, Caffè Nero stopped providing staff with free lunches in a cost-cutting response to the NLW (Rodionova, 2017). Also, Tesco, the largest retailer in the UK, cut several thousand jobs to ease the burden of the higher minimum wage. This included the loss of 1,600 deputy store managers, resulting in junior staff taking on more responsibilities for increased efficiency (Megaw & Vandevelde, 2017).

Furthermore, other large retailers have rendered many low-skilled jobs obsolete, such as price controllers in supermarkets and chefs at John Lewis – meals are now provided by external suppliers, where they pre-prepared in central kitchens, meaning chefs are no longer needed in-store (BBC News, 2017; Vandevelde, 2017). This shows that the retail industry has already responded to the NLW by improving the efficiency of its workers, causing numerous low-skilled job losses in the process. However, this will have led to reduced spending on employment by retailers and a slight boost in productivity as the smaller workforce carries out more duties.

Further NLW rises will encourage businesses to increase investment in technology to automate low-skilled jobs involving routine tasks as a cheaper long-term alternative to hiring people (Tetlow, 2018). Research by the Institute for Fiscal Studies (IFS) found that workers set to be covered by the NLW in 2020 are "more than twice as likely" as those already earning the minimum wage in 2015 to be in the "top 10 percent most routine occupations" (Cribb, et al., 2018). These occupations will include cashiers which can be easily substituted for self-service checkouts. This will not only have the effect of reducing labour costs as one staff member can monitor multiple machines, but also to save space to allow for more of these automated checkouts to be installed, resulting in shorter queues and wait times for customers (Boothe, 2013). On the other hand, the introduction of self-checkouts in response to a higher minimum wage may present several costs to the retailer, particularly due to theft. Customers are more likely to steal at self-service checkouts due to the reduced human presence, with a study finding that losses incurred through self-checkouts amounted to 3.97 per cent of stock, compared with 1.47 per cent at traditional staffed checkouts (Mortimer & Dootson, 2017).

Additionally, as has already been implemented in French supermarkets due to the high minimum wage in France, UK retailers may opt to mark prices on electronic displays to eliminate the need for them to be updated manually (The Economist, 2016), reducing the number of employees needed or hours worked to keep labour costs down. At present, businesses in the UK have not yet had a great enough incentive to boost capital investment to such an extent, though this may change if the NLW surpasses the point at which labour expenses exceed the costs of implementing machinery to replace these highly automatable jobs. This will have the impact of incentivising the retail industry to invest in and adopt technology to replace low-skilled workers early, lowering costs in the long-term. This is especially true as automation technologies become more widely adopted and the cost of hiring new people continues to rise (The Economist, 2015; Cribb, et al., 2018).

Furthermore, businesses may increase the proportion of under-25s in their workforce as they are not covered by the NLW (The Economist, 2016) and will help to reduce the effect of higher hourly rates on business profits. By recruiting more under-25s instead of older workers, retailers will be able to legally pay these employees a lower wage, further helping to cut expenses so that the NLW has a minimal impact on profits. Nonetheless, there is little evidence to suggest that businesses are prepared to respond in this way, with a survey of 1,037 employers concluding that fewer than one in 10 respondents would hire more workers under 25 as part of their strategy to deal with the new NLW (O'Connor, 2015; Federation of Small Businesses, 2017).

Whilst the NLW has affected the country's largest retailers, it is likely to have a greater impact on small businesses. This is because 16.3 per cent of employees in small businesses were paid below the NLW before 1 April 2016, compared with just 5.2 per cent of employees in large businesses (Office for National Statistics, 2016), meaning the minimum wage rise will hit the profits of smaller retailers more significantly. According to recent research, almost two thirds of small businesses have had to accept lower profits because of the NLW. A substantial number have increased prices and cancelled their investment plans to cope with the higher wage bills. About 20 per cent have also hired fewer workers or reduced working hours (Federation of Small Businesses, 2017).

This indicates that smaller businesses have already struggled to survive the NLW increases thus far, so it is probable that future rises until 2020 will prove to be too much to handle. Job creation could stall, and job losses may result (BBC News, 2016). Moreover, some small retailers have found the extra expenditures to decrease their competitiveness with larger retailers (Vandevelde, 2017), leading to the risk that these small businesses will be forced to close.

To conclude, the new minimum wage introduced in 2016 has presented various challenges for the retail industry to deal with as a significant proportion of workers in this sector earn wages at or close to the NLW. After two years, retailers have acted to prioritise profits by either cutting jobs, reducing work hours or investing in technologies to automate routine tasks. However, the policy has yet to be fully implemented and the impacts are likely to be more severe going forward as the NLW rises until 2020, with further job cuts and a more widespread implementation of technology to replace low-skilled workers.