



Master Grocers Australia Limited
T/AS
MGA Independent Retailers
MGA Timber Merchants Australia
(MGA TMA)

Fair Work Commission Annual Wage Review
2023

Submission to the Expert Panel of the Commission

31 March 2023

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EXECUTIVE SUMMARY

1. Master Grocers Australia Ltd (**MGA TMA**) considers the work of the Fair Work Commission (**the Commission**) in conducting the Annual Wage Review to be of critical importance to the prosperity and viability of its members' businesses. MGA TMA has consulted and surveyed its members and their collective feedback is the basis of this submission.
2. The majority of employees in MGA TMA member stores are employed on the minimum award rates set by the *General Retail Industry Award* and the *Timber Industry Award*.
3. MGA TMA recommends a wage increase of 3.5% in the *General Retail Industry Award (GRIA)* and the *Timber Industry Award (TIA)* in 2023.
4. Small and medium-sized businesses are the core constituent of MGA TMA membership and those businesses occupy a vital position in their communities. MGA TMA members proudly employ local people in their communities and support local (often small-scale) producers and suppliers who are dependent on those businesses.
5. Independent retailers are exposed to significant competitive threats from large established retail chains in the economy which are able to absorb both short and medium-term financial losses through their market and capital positions. Many independent retailers are unable to withstand the magnitude of losses that established large competitors are able to sustain.
6. The independent retail sector, along with many other sectors in the economy, are facing an unexpected and unprecedented set of economic circumstances, particularly with the high rate of inflation consistently leading to an increase in the cost of business inputs, such as energy.
7. The independent retail sector operates on thin margins which are increasingly coming under pressure due to factors like rising interest rates and inflation.
8. MGA TMA members proudly operate in metropolitan and regional areas. Regional businesses in particular have been exposed to devastating natural disasters in recent years which have significantly threatened the ongoing viability of their operations and by consequence, potentially the ability of entire communities to have access to essential retail services.
9. In accordance with member feedback, MGA TMA is concerned the imposition of additional significant costs on its members, such as by increasing the minimum wages in the GRIA and TIA beyond 3.5%, will likely lead to decreased employment, significant increases in the price of goods (thereby exacerbating inflation) and even business closures.
10. MGA TMA thanks the Commission for the opportunity to make this submission on behalf of its members.

MGA INDEPENDENT RETAILERS AND MGA TIMBER MERCHANTS AUSTRALIA

11. Master Grocers Australia Ltd, trading as MGA Independent Retailers and MGA Timber Merchants Australia (**MGA TMA**) is a national employer industry association representing independent grocery, liquor, and other retail and supply outlets including timber and hardware, in all States and Territories of Australia. Those businesses range from small to medium and large and account for approximately \$19 billion in retail sales, of which \$16 billion are within supermarket and liquor businesses and \$3 billion within timber and hardware businesses. These businesses collectively employ more than 120,000 people and are much smaller in scale than other established large supermarket and hardware chains. Independent retailers represent approximately 15% of the supermarket and liquor retailing sector and 35% of the timber and hardware retailing sector.

12. MGA TMA represents approximately 2,850 branded independent grocery stores, trading under brand names such as: Drakes, Farmer Jacks, FoodWorks, Foodland, Friendly Grocers, IGA, IGA Xpress, Supa IGA and SPAR and Ritchies IGA with a further approximately 1,300 independent supermarkets trading under their own local brand names.

13. In addition, there are numerous independent liquor stores operating throughout Australia trading under names such as: Cellarbrations, The Bottle O, Duncans, and Local Liquor, which are either single or multi-store owners. MGA TMA also represents approximately 197 members that operate independent timber suppliers, processors, wholesalers and hardware stores and trade under brand names including Mitre 10, Home Timber and Hardware, Thrifty Link and True Value Hardware.

INTRODUCTION

14. In a recent survey conducted by MGA TMA, 65% of responses supported an increase to the minimum wages in the GRIA or TIA. Accordingly, MGA TMA supports and recommends to the Commission a 3.5% increase to the minimum wages contained in the GRIA and TIA. An increase beyond this is not economically feasible for MGA TMA members in the independent supermarket, liquor and timber and hardware sectors across Australia, particularly having regard to current economic conditions and the various pressures those businesses face which are further articulated in this submission.

15. During the period since the last Annual Wage Review and subsequent decision to increase the minimum wages in the GRIA and TIA in 2022, MGA TMA members have reported they have been significantly impacted. These increases had an adverse impact on financial stability and maintenance of staffing levels, with 62% of MGA TMA members reporting that as a consequence of the Commission's decision in 2022, they reduced staffing levels in their businesses.

16. The recent experiences of MGA TMA members, coupled with uncertain economic conditions which continue to impact members and the broader economy generally, provide a reasonable basis for MGA TMA to urge the Commission to demonstrate restraint in its upcoming decision regarding the setting of minimum wage rates in the GRIA and TIA.

THE REQUIREMENTS OF THE ANNUAL WAGE REVIEW 2019-2020

17. The Commission is required to conduct an annual review of wages in Australia by reviewing the award and national minimum wages and wage order and make a determination in accordance with s 285(2) of the *Fair Work Act 2009* (**the Act**).

18. The minimum wage objective outlined in s 284 of the Act requires the Commission to establish and maintain a safety net of fair minimum wages through consideration of 'the performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth'. It also must consider Australia's future economic prosperity in accordance with s 3 and s 134 of the Act.

IMPACT OF PREVIOUS WAGE INCREASES

19. The independent retail sector employs a significant proportion of its employees under Modern Awards, particularly the GRIA and TIA. In a recent survey conducted by MGA TMA, 93% of respondents indicated their employees are employed under a Modern Award, and we expect this percentage to increase following the automatic termination of legacy enterprise agreements in December 2023. The implication of this statistic is that minimum wage orders made by the Commission have a significant and direct impact on the operations of member businesses.

20. MGA TMA members have indicated they have been required to take action to accommodate recent wage increases in the GRIA and TIA. Common experiences include:

- Raising the cost of goods and services
- Reducing full time employment opportunities;
- Reduce staffing levels and / or hours of work;
- Closing the business during times when wages are relatively higher than during other times.

21. With a particular regard to the current economic conditions outlined further in this submission, MGA TMA members are concerned that significant future minimum wage increases are likely to result in further implementation of the above measures and potentially other actions, including closing their businesses on the basis they are no longer financially viable to operate.

EXPECTED IMPACT OF FUTURE WAGE INCREASES

22. Whilst MGA TMA recommends a minimum wage increase of 3.5% in the GRIA and TIA, it is cognisant that even this increase would have a significant impact on its members, the retail industry generally and the Australian economy.

23. MGA TMA is concerned about the impact minimum wage increases will have on business competitiveness and viability, inflation and employment growth. Any increase to minimum wages will require businesses to either cut costs (which could lead to a reduction in employment opportunities), increase prices (which would contribute to greater inflation) or further reduce profit margins (which threatens the ongoing viability of businesses).

24. MGA TMA members have reported that following any increase to minimum wages, they will consider a further reduction in staffing levels with owners of those businesses working increased hours in those business themselves instead of employing workers.

25. MGA TMA urges the Commission to consider its member's feedback when considering an increase to the minimum wages in the GRIA and TIA.

26. Notwithstanding the above impacts of MGA TMA's recommended minimum wage increase of 3.5% in the GRIA and TIA, MGA TMA members are appreciative of the contribution their employees make to their businesses and a majority of MGA TMA members do support a modest minimum wage increase.

CURRENT BUSINESS CONDITIONS AND THE ECONOMY

27. The Australian economy is experiencing instability because of high inflation, relatively high interest rates compared to recent years, unprecedented increases to energy costs, the devastating impact that natural disasters such as floods and fires and the ongoing recovery after the effects of the COVID-19 pandemic.

28. MGA TMA considers that a significant degree of caution should be exercised in respect of increasing minimum wages within the next financial year, especially as regulators, businesses and consumers respond to rapidly evolving economic conditions.

Economy

29. As at the time of publication, the inflation rate, as measured by the Consumer Price Index is reported to be 7.8% for the December 2022 quarter.¹ This rate, which has not been experienced by the Australian economy since the early 1990's², is a source of significant financial pressure on MGA TMA members. This rate of inflation is an unknown experience to many MGA TMA business operators who have not had to design their retailing and production systems to accommodate such circumstances.

Energy

30. In a recent MGA TMA survey, an overwhelming 81% of responses nominated an increase in energy costs as a top concern. MGA TMA members are typically required to operate energy intensive equipment, such as refrigerators, on a constant basis and are vulnerable and sensitive to energy price increases. 56% of MGA TMA members have reported that in recent times they are being confronted with energy costs increasing by more than 10%. MGA TMA urges the Commission to consider this substantial and recent cost increase being experienced by its members when undertaking the Annual Wage Review.

Cost of living for workers and consumers

31. MGA TMA recognises that the cost of living for workers and consumers (as a consequence of inflation) has increased since the previous Annual Wage Review in 2022.

32. Where MGA TMA members have increased the cost of goods and services they supply to consumers, this occurred in circumstances to offset increased input costs. By virtue of their inherent independence, MGA TMA members are not price leaders and have a deep commitment to provide members of their community with value.

33. MGA TMA members operate on thin margins which are constantly under pressure from established large chain retailers which can afford to absorb reduced margins through large volume turnover. Any suggestion MGA TMA members artificially inflate profit margins to capitalise on broad price inflation is unsustainable.

¹ Published on the Australian Bureau of Statistics website as at 31 March 2023.

² *ibid*

34. MGA TMA is concerned by the assessment and analysis of the Reserve Bank of Australia³ which highlights the contribution previous wage increases have made to inflationary growth and the risk that future wage increases could add to inflationary pressure. Through a recent survey, MGA TMA members have supported the Reserve Bank of Australia's analysis and assessment by stating that future wage increases will likely result in business operators having to reluctantly increase the price of goods and services they sell to consumers to be able to fund wage increases. 65% of survey responses indicated this would likely occur if the Commission were to increase minimum wage rates in 2023 by any amount.

35. Whilst MGA TMA supports an increase to the minimum wage rates in the GRIA and TIA of 3.5% to assist workers in the independent retailing industries with the cost of living, MGA TMA urges the Commission to carefully consider the impact a wage increase in excess of 3.5% would have on inflation and economic stability.

Natural disasters and emergencies

36. In recent years, Australia has been subject to significant natural disasters and other emergencies including bushfires, flooding and a global pandemic. These events have caused immense disruption and financial impact on MGA TMA members as well as many other businesses in the Australian economy. MGA TMA urges the Commission to consider the impact wage increases will have particularly on small businesses as they continue to recover from these events.

Supply chain disruptions

37. MGA TMA members report they have encountered challenges and consequent cost of business increases associated with disruptions to supply chains. MGA TMA business operators are continuing to navigate supply chains disrupted by the COVID-19 pandemic and global conflicts.

EMPLOYMENT

38. Results from a recent survey conclude MGA TMA members employ a dynamic combination of permanent and casual employees. MGA TMA members employ people across all age groups.

39. MGA TMA members value the long service and loyalty of experienced employees who have a commitment and passion for working in the independent retailing and production industries.

40. As is the case in many Modern Awards, the GRIA and TIA vary the minimum wage rate payable to employees based on the age of the employee. In a recent survey conducted by MGA TMA, 38% of members indicated a further increase in wages may result in operational

³ <https://www.rba.gov.au/publications/smp/2023/feb>

decisions being made which would eliminate roles that require experienced employees and substitute those roles for ones which can be performed by more junior and inexperienced employees on relatively lower wage rates. Such operational decisions may have the medium and long-term effect of reducing employment opportunities for experienced workers in favour of less experienced workers who are cheaper to employ.

41. Concerningly, the same survey also revealed 68% of MGA TMA members may be required to reduce the number of people they employ to accommodate an increase in minimum wage rates. MGA TMA urges the Commission to have regard to the impact wage increases may have on employment levels in the Australian economy.

SMALL REGIONAL BUSINESSES

42. MGA TMA members operate across Australia, including in small regional and remote communities. Many larger and dominant retailing chains do not have a presence in small regional and remote communities and an independent retailer may be the only retailing option in that community. In some instances, a MGA TMA member may be the main employer in a community and the sole supplier of essential goods.

43. Regional and remote communities are especially sensitive and vulnerable to the ongoing viability of the independent supermarket and other retailing sectors.

44. Regional and remote retailers generally encounter greater transport and other input costs in providing their goods and services. Further increases to the cost of operations, (including wages) may directly threaten the viability of those businesses and the economic prosperity of the communities which rely on them.

45. MGA TMA urges the Commission to have particular regard to the essential role retailers have in communities across Australia and how an increase in business costs can threaten the provision of essential goods and employment opportunities in those communities.

CONCLUSION

46. Having regard to the above, MGA TMA considers a 3.5% increase in minimum wages in the GRIA and TIA in 2023 to be an appropriate and proportionate course especially in the current business and economic climate.

47. MGA TMA thanks the Commission for the opportunity to make this submission.

MASTER GROCERS AUSTRALIA LIMITED
31 March 2023