



ACS Submission: Low Pay Commission Consultation 2022

Executive Summary

- There are 47,000 convenience stores in Britain, providing 392,000 jobs in all types of communities. The average store employs 9 people, over two thirds (64%) of whom work fewer than 30 hours per week.
- The convenience sector is an exemplar for two-sided flexibility in the labour market, providing local, secure and flexible employment. 92% of colleagues in the convenience sector have an employment contract and 55% of colleagues walk to work.
- These are extraordinary times for the labour market, with rising vacancy rates and low unemployment, all respondents to ACS NLW Survey indicated it had become harder to recruit new staff.
- Convenience retailers are facing a challenging trading period over the next 12 months with performance impacted by reduced household spending on food and rising business operating costs.
- Convenience retailers are seeking to shield their customers from price increases, but the sharp rise in food commodity prices, utility bills and labour costs means that retailers have no choice but to pass on some cost to consumers.
- The main responses to increases in the National Living Wage by retailers have been to absorb costs impacting profitability (67%), pass on increases through higher prices (50%), reduce staff hours and numbers (50%).

Recommendations

- ACS recommends a cautious approach to future rates in this economic context. The Commission's deliberations on affordability for businesses need to consider the unique challenges facing employers at the current time.

For more information about this submission, please contact ACS Government Relations Director edward.woodall@acs.org.uk

Introduction & Research Overview

ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence to the Low Pay Commission (LPC) on the future of statutory minimum wage rates. The convenience sector has a unique reach into local communities, providing access to key groceries and a range of services. ACS represents over 33,500 local shops and petrol forecourt sites including One Stop, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Londis and Costcutter. Further information about ACS is available at Annex A.

ACS has conducted a range of primary research to inform this submission. The ACS National Living Wage Survey 2022 has collected information from 15 businesses representing 1,500 stores and employing over 20,000 staff between 1st April and 31st May. Data from the survey has been weighted to be nationally representative for the UK convenience sector¹.

Data from the ACS National Living Wage Survey 2022 was collected via an online survey and was distributed both via email to ACS members and using the ACS website. The data is therefore based on a non-random sample and the sample is likely to be slightly biased towards those who have been particularly affected by the NLW.

ACS' submission also draws on the following research:

- ACS Colleague Survey 2022: Online survey, conducted between the 14th December 2021 and 4th March 2022. A sample of 11,354 people working in the convenience sector.
- ACS Local Shop Report 2021: Survey based on a random sample of 2420 independent retailers combined with data from ACS multiple members and weighted to represent the market. Secondary data sources are also used in the report.
- ACS Voice of Local Shops Survey (VOLS): Quarterly telephone survey of a random sample of 1,210 symbol and independent retailers.

Further methodology information is available on request. ACS has also facilitated Low Pay Commissioners to meet with convenience retailers or visit stores in Wolverhampton and Hastings & the Rother.

Economic Outlook

Convenience retailers, as essential businesses, were able to trade throughout national lockdowns as they provide essential food and services to communities. For many neighbourhood and village stores they saw an increase in trade during national lockdowns, but for one fifth of the retail premises trading from transport hubs or large high streets they experienced a significant sustained decline in sales. Convenience retailers benefited from government support, primarily through reductions in business rates bills, but this support has now been phased out.

Cost of Living

As lockdown measures have eased across the country and the whole economy has opened consumer shopping and trading patterns have been disrupted and difficult to predict. There

¹ Data comes from ACS Local Shop Report which stipulates independents make up 71% of the market and the remaining 29% are multiple businesses (including co-operatives)

are clear signs that consumers are starting to cut back on discretionary spending because of the cost-of-living crisis, driven by rising food, utilities and fuel prices. This is disrupting consumer shopping patterns and confidence leading them to vary the retailers they shop with and the volume and frequency of their shopping trips.

This level of uncertainty means that retailers are taking a cautious approach when considering recruitment and investment decisions. Figure 1 below shows a significant decline in optimism levels about future sales rates and staffing levels demonstrating that the year ahead will be a very challenging trading period for convenience retailers².



Now we are seeing basket spends in convenience stores holding up compared to pre-pandemic levels³, but the widely held predictions of rising inflation will have an impact on consumer spending. The extent of the impact on consumer will vary by location and disposable income. Convenience retailers are hyper local businesses with the majority of the customers coming from within half a mile of their store – this means local/ regional dynamics will have great bearing on trading performance.

Operating Costs

Convenience retailers are experiencing rising operating costs in a similar way to households. The pace of product, labour and utilities increases has meant that retailers have had little choice but to pass on costs to consumers⁴. Our research has also demonstrated that rising operating costs and the need to retain competitive pricing is impacting profitability for some convenience retailers⁵.

Convenience retailers are experiencing significant increases in their energy bills and they receive no support from the government to manage this. We regularly see retailers reporting that their energy bills will more than double over the next year. The increase in their energy bills has in many cases outstripped the investments made in energy efficient equipment, such as new refrigeration or led lighting. Many retailers perceive the shift in increased energy cost as a structural change in their operating costs that will have to be reflected in their pricing, investment and recruitment strategies in the long term.

² ACS Voice of Local Shop Survey May 2022, sample 1,210 convenience retailers

³ The Retail Data Partnership: December 2021

⁴ ACS Focus Group January 2021

⁵ ACS NLW Survey 2022 – Figure 2

Labour Market

The labour market serving retailers' supply chains has been significantly disrupted by Covid and EU exit. Increased competition for HGV drivers and warehouse pickers during covid has resulted in increased distribution costs across the grocery market supply chain. Friction at borders and reduced workforce availability caused by EU exit has increased supply costs. Retailers are reporting increased or new charges on deliveries to stores to account for these new costs⁶.

The tightening of the labour market has also increased competition when recruiting store colleagues. All respondents to ACS' NLW Survey 2022 indicated that recruitment has become more difficult in the last year, with growing competition with other employers when recruiting (92%) and retaining colleagues becoming more difficult (58%). Convenience retailers tend to employ store colleagues at or just above National Living Wage, but it has proved increasingly difficult to recruit staff at this level as the tightening labour markets increases wage rates.

Other Regulatory Challenges

The whole grocery sector faces two huge regulatory changes in the coming months, the introduction of new regulations restricting the promotion and placement of products high in fat, salt and sugar (HFSS) in England and a new deposit return scheme (DRS) across the UK. Both interventions are adding to the cost pressures of retailers with substantial capital investment required to refit stores and train staff to comply with the regulations.

We estimate that the introduction of HFSS regulations restricting the location of products in store will cost each impacted store £13,000. Similar costs are anticipated for DRS in Scotland, where DRS will be introduced first in 2023, if retailers are installing reverse vending machines. The Low Pay Commission should factor in the compounding impact of these regulatory interventions.

ACS National Living Wage Survey Results

What has been the impact of the NLW in the past year?

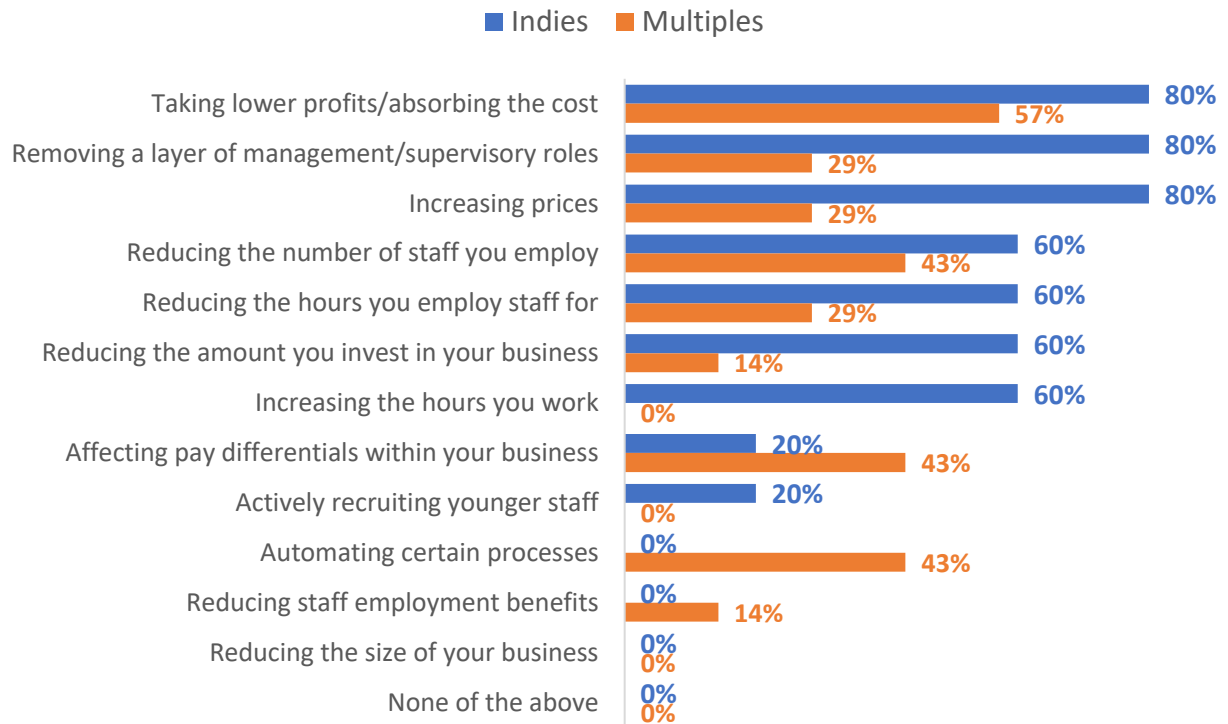
Retailers have indicated that the increase in the NLW over the past year has impacted their profitability (67%) as they try to absorb rising costs. However, increases in the NLW plus excessive increases in operating costs has meant it has been unavoidable for retailers not to increase their prices (50%). Our survey also continues to find the retailers are seeking to reduce the number and working hours of staff in their business (50%)⁷.

This is a challenging scenario for retailers that are heading into a period of increased economic uncertainty. They are experiencing pressure on both their ability to deliver value and service to their customers. Figure 1 below shows how the approach to managing NLW increases differs between multiple and independent business. Multiple retailers are more inclined to see pay differentials squeezed, particularly for supervisory or assistant manager staff, while independent retailers have already removed these roles. Multiple retailers are also more likely to invest in automating processes like self-scan tills or back office functions. Although automation of processes is growing in the convenience sector the levels of investment in self-scan checkouts (11%) and digital shelf edge labels (8%) remains low.

⁶ [The Grocer, 27th January 2022](#)

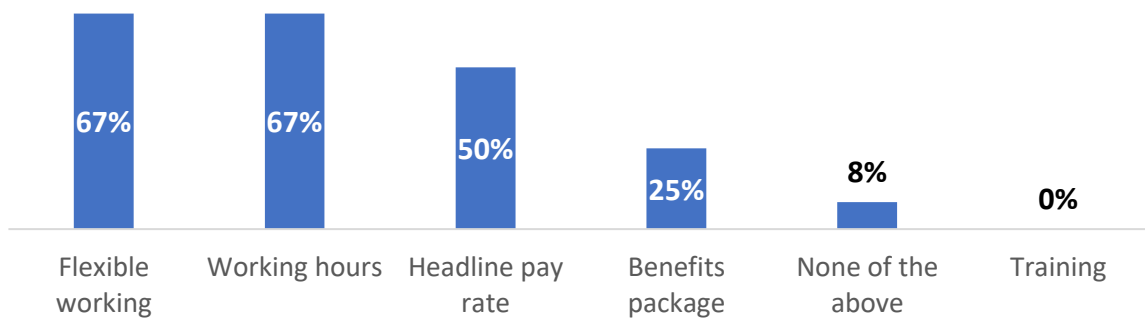
⁷ ACS NLW Survey 2022

Figure 2: Thinking about how you are responding to the April 2022 NLW increase, which if any, of the following actions are you taking?



The tightening of the labour market has increased reports from retailers of candidates seeking to negotiate employment terms. This is predominately about working hours (67%) but also about negotiating headline pay rates (50%) (see Figure 3). Retailers have observed that the pool of candidates that they are seeking to recruit have higher expectations about what the labour market can offer post-covid. 4 in 5 convenience retailers indicate that they are adjusting their employment packaged to recruit and retain store colleagues. 42% are highlighting progress opportunities and 33% are reviewing their headline pay rates.⁸

Figure 3: Which of the following elements of your employment offer did job candidates challenge or want to negotiate?



⁸ ACS NLW Survey 2022

Based on forecasts, our current central projection for the April 2024 NLW rate is £10.95. What are your views on this target?

Looking ahead retailers are concerned about future rises in the NLW wage. The projected increase to £10.95 would result in 64% of retailers seeing pay differentials squeezed, 58% of retailers increasing prices and 58% seeing a further hit to the profitability of their business⁹.

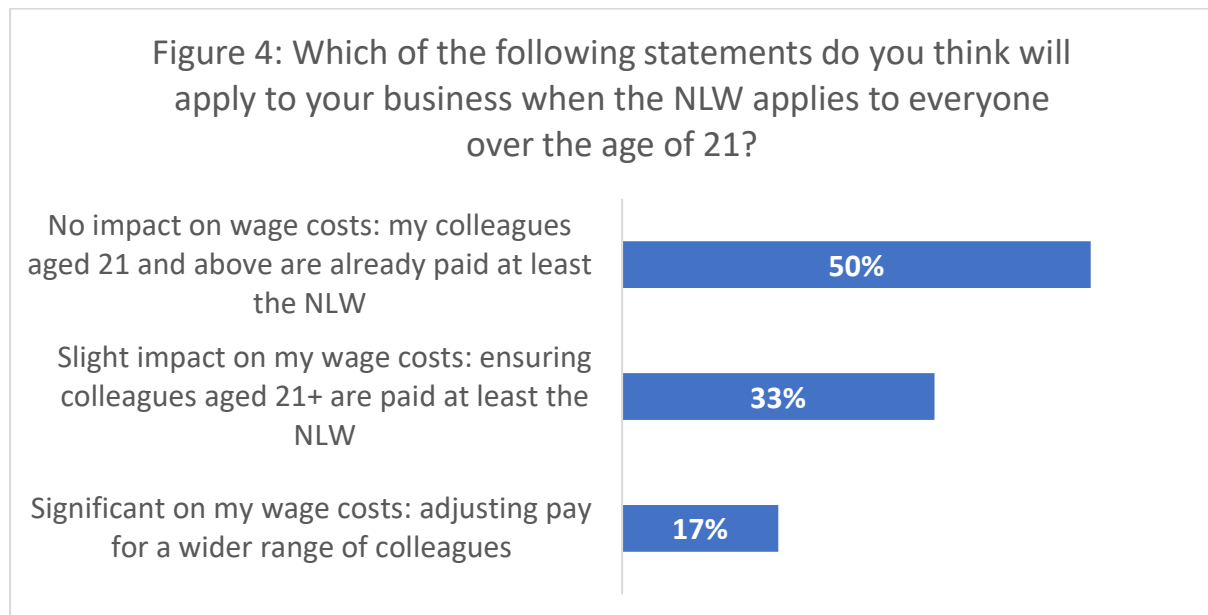
It is for these reasons that we believe that the Low Pay Commission must take a cautious approach when setting the future wage rate for 2023 and beyond. We also believe that the government should review their approach to setting wage rates based on median earnings post 2024.

The conditions in the labour market have changed considerably since the two thirds median earnings target was originally set in 2015. We believe it would be appropriate for statutory wage rates to return to being set based on objective economic analysis instead of politically set targets.

How have employers responded to the lowering of the NLW age threshold to 23?

Convenience retailers continue to use the full range of statutory wage threshold based on age or apprenticeship requirements. Our research has consistently shown that most (50%) retailers are already paying store colleagues aged 21 or above the NLW (see figure 4).

In small retail settings where work activities and legal responsibilities, such as the sales of age restricted products, are equally shared it is difficult to differentiate pay rates for similar work. The 17% of retailers that indicate there will be a significant impact on their wage costs are more likely to be independent retailers or have stores that recruits from a younger labour market.



At what level should the NLW be set from April 2023? Our current central projection for the on-course rate is £10.32.

The most common response to ACS' NLW Survey on the 2023 wage rates was that NLW should increase by no more than the rate of inflation, which is currently at 9%. Given the

⁹ ACS NLW Survey 2022

evidence we have shared with the Low Pay Commission about the increasing operating costs facing convenience retailers face, we urge the Low Pay Commissioner to be cautious.

We believe that the Low Pay Commission should consider that inflation is projected to peak in 2022 at 10% and slowly return to the 2% inflation over a two-year period according to the Bank of England.¹⁰

What evidence can you provide on how the Accommodation Offset is applied? We believe the offset is most commonly applied in the agriculture, horticulture and hospitality sectors.

At the Low Pay Commission's request, we included questions in our NLW survey about the accommodation offset. No retailers indicated that they used the accommodation offset in response to the survey.

What is the outlook for the recruitment and employment of apprentices?

34% of colleagues indicate that they are interested in progression and training in the sector, but demand for apprenticeship remains low. Currently 6% of colleague working in the convenience sector indicate that they are enrolled on an apprenticeship or completed an apprenticeship with their employer. We believe that this is due to most colleagues (64%) in the sector working part-time hours, meaning it take longer to complete apprenticeship programmes¹¹.

Retailers continue to reflect longer term structural challenges associated with the apprenticeship levy. Retailer desire more flexibility in how they can use the levy funding and want more control over off-site training. It is often difficult for retailers to find good quality apprenticeship service providers. Our members do not generally use the apprenticeship wage rates and instead pay apprentices the standard wage rate offered in their business.

For more information about this submission, please contact ACS Government Relations Director edward.woodall@acs.org.uk

¹⁰ [Bank of England Inflation Forecast May 2022](#)

¹¹ ACS Colleague Survey 2022

Annex A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 47,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.

ACS | the voice of local shops

WHO WE REPRESENT

INDEPENDENT RETAILERS



ACS represents almost 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES



ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents over 13,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColts and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR



In 2021, the total value of sales in the convenience sector was £43.2bn.

The average spend in a typical convenience store transaction is £10.82.



There are 47,079 convenience stores in mainland UK. 71% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 392,000 people.

8% of independent/symbol stores employ family members only.



10% of shop owners work more than 70 hours per week, while 49% take no holiday throughout the year.

72% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

80% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2020 and May 2021, the convenience sector invested over £534m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of around 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,700 stores. The Local Shop Report also draws on data from Lumina Intelligence, ISD, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit www.acs.org.uk