

Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

1 June 2022

Dear Paul,

Thank you for the opportunity to provide evidence to the Economy, Trade and Rural Affairs Committee's inquiry into the cost of living on 26th May. We have outlined our response below to the additional questions that were not able to be covered during the session. We have also included a report from a focus group of convenience retailers that was carried out at the start of the year, providing some additional detail and anecdotal evidence on the breadth of cost increases that retailers are facing at the present time.

We welcome the opportunity to discuss these issues further and look forward to the findings of the Committee's inquiry.

Responses to Additional Questions, Cost of Living Inquiry

Q: The extent increased wages due to the cost of living increase is impacting business costs in comparison to other factors such as energy costs, and any effect of labour shortages which may be adding to these.

Retailers are reporting to us that the current labour market is extremely challenging, both in terms of retention and new entry. Those who are currently hiring new colleagues are reporting that the expectations of pay and working hours flexibility are higher than before, which is also impacting existing employees that are either looking for an increased wage or benefits to stay in the business.

Figures from our 2021 National Living Wage survey show that the £8.91 NLW rate had required 68% of retailers to take less profit in the business, while 48% of retailers have had to increase prices for customers, and 44% of retailers have had to automate more processes in the business. Looking ahead from that point, 58% of retailers believed that the £9.50 NLW (in force from April 2022) would impact their investment plans, and 63% believed it will affect the overall number of employees in their business. We are currently collating information on the impact of the April 2022 NLW increase and the implications for the sector.

In terms of comparison between other factors like energy costs, typically measures that stores put in place to reduce employment costs will come with a cost elsewhere – for example putting in a self service till will increase the energy and maintenance costs of the system. However, at the moment

most retailers are close to their limit when it comes to reducing costs and still keeping the business going, so there is very little flexibility for cost reduction across the board.

Q: Looking forward, how will cost of living pressures be exacerbated for businesses across Wales over the coming months? What are the key factors behind this and implications if no further government support is provided?

The increase in costs that retailers have been facing throughout the year across all areas of their business have not yet been passed on to the extent that is expected in the near future. Retailers are telling us that up to now, they are attempting to hold off on increasing the price of products to customers as much as possible by looking at alternative options to reduce costs, but as previously mentioned this is close to the limit and the only other lever retailers will have is to increase the price of goods on sale to cover the cost increases they're facing.

Retailers are being impacted not only by increased product costs but by delivery charges imposed by wholesalers to cover their own increased operating costs. This challenges retailers not only in adding to their overall costs, but it makes for challenging decisions about which products should be subject to price increases to cover these costs.

The implications of this are that the current inflation figures we're facing will be accelerated through the rest of 2022 as more price increases come through in stores. Government support on areas like energy costs for small businesses, grants and funding for energy efficiency investment, and freezing the business rates multiplier for 2023/24 are needed to stem the incoming tide of price increases and provide some respite for retailers.

Q: How should the Welsh Government prepare for the rise in unemployment predicted by the Bank of England?

In the convenience sector, recruiting staff is a challenge at present in part because of the extremely low levels of unemployment and the higher expectation of staff coming from other businesses/sectors. We believe that the Welsh and UK Government should be looking at ways to recognise good quality work and encourage growth in that area, rather than focusing on the overall employment figures which include a proportion of uncertain gig economy work that doesn't offer the same progression opportunities. The convenience sector provides opportunities for development for thousands of colleagues every year, but more can be done to encourage and incentivise that development.

Kind Regards,



Chris Noce
Communications Director
Association of Convenience Stores

Convenience Retailer Focus Group: Pressures on Doing Business in 2022

Conducted by the Association of Convenience Stores

ACS | the voice of
local shops

On January 14th 2022, the Association of Convenience Stores conducted an online focus group discussion with 20 convenience retailers, representing a broad cross section of the UK convenience sector. The group included standalone convenience operators, forecourt operators, those in both rural and urban areas across England, Wales and Scotland, as well as a mix of gender and ethnicity.

The group was asked to give their feedback on the pressures that they're facing as business owners in 2022. All have agreed to share this feedback anonymously for the benefit of informing policymakers.

Topics covered included the cost of doing business, supply chain issues, challenges around employing people, investment plans, and long term strategy decisions. These have been summarised below.

INFLATION

In the 12 months to December 2021, inflation reached 5.4% with further increases on the horizon. The group shared significant concerns about the impact of increasing inflation on every aspect of their business, which ultimately forces retailers to put their prices up to maintain product margins and keep the business profitable. However, retailers are acutely aware of the impact that increasing prices has on their ability to attract and retain customers - with incomes being squeezed, price will become more of a primary determinant of where customers choose to shop.

The increases in inflation were not regarded as a short term problem by the group, with many reporting that they're considering fundamentally changing the fabric of their business operations to ensure that they can keep trading in the future.

PRESSURE POINTS

- Wholesale product costs rising on a frequent and unpredictable basis
- Customers alienated by increased prices of staple items like milk and bread
- Traditional models of stores operating with a gross percentage margin in the low 20s being reconsidered
- Retailers aren't passing cost increases on immediately, so they're playing catch up all the time
- Cost of doing business increasing at a time when business rates bills are about to be reintroduced

RETAILER VIEWS

“The price of products is going up so frequently at the moment that it's very difficult to focus on the strategy of the business, we're spending time focusing on making sure that we're getting enough margin on each product line.

When inflation creeps up, usually we just end up passing that on to the customer, but now there's a fundamental shift in how we're looking at our business. The only way we're going to be able to overcome costs going up in all areas of the business is by moving from a 22% gross margin to a 25-27% gross margin - the entire model is going to have to change.

As businesses operating in communities, we're always scared of increasing costs because we don't want to alienate those customers, but that can only last so long when the costs we pay are going up all the time.

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INVESTMENT

Over the last 12 months, the UK's convenience store retailers have invested £534m, with the most common form of investment being in refrigeration (both increasing the amount of refrigeration available in store, and replacing units with more efficient ones). The group reported that investment in energy efficient measures like solar panels, LED lighting and modern refrigeration was becoming more urgent and taking priority over other investments in the business. The group also reported that investment in productivity measures was a priority, with retailers looking to automate processes where possible through technology like self service tills.

PRESSURE POINTS

- Urgent need to invest in reducing costs can take up resources that would otherwise be spent improving the offer for customers
- Businesses rethinking their plans for the coming years to focus on staying afloat rather than improving and developing their stores
- Experienced retailers are falling back on established relationships, credit lines and knowledge of how to find ways round problems, but this is very difficult time to start a business in the sector with so many operational problems

RETAILER VIEWS

“ Our focus this year is on energy efficiency and labour efficiency. We'll be looking at new refrigeration, looking at LED lighting, increasing the amount of solar that we've got, as well as other ways of saving the cashiers time before we look to cut hours.

We've invested in refrigeration and lighting, we're looking at ways to reduce our costs, but we'll get to a point where we've exhausted all of that and I'm not sure where we go next.

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ENERGY COSTS

The cost of gas and electricity has been rising steeply through 2021, with more rises expected in 2022. This is having a significant impact on convenience stores, who are typically high volume users of electricity for their square footage owing to the amount of refrigeration and freezers that they have. The group reported that there was difficulty negotiating new contracts at the present time due to the uncertainty over future increases, with brokers hesitant to fix retailers on longer term rates. Efforts to make the business more energy efficient were also seen to only go so far before the impact of cost increases led to prices having to go up or the range of products offered being reduced.

PRESSURE POINTS

- Significant rises in gas and electricity costs across the board
- Making the business more energy efficient is expensive, and only pays back after several years
- Uncertainty over future rises, so difficult to fix costs over a period of time, which then impacts on other decisions
- Cost of utilities affecting service and product availability in store

RETAILER VIEWS

“ We're looking at how we can generate electricity on site by investing in solar. We invested in the equipment two years ago and are still paying it off. Before Christmas this year, the cost of electricity has led to us offering less frozen product because the cost of running the freezers strips out all of the profit.

We're looking at the cost of gas and electricity doubling in our business this year.

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SUPPLY CHAIN

Throughout the pandemic, there have been a number of instances where supply chain issues have arisen, with convenience stores often having to source products from local wholesalers themselves to keep shelves stocked. The group reported that wholesalers and suppliers delivering to their stores are already taking a range of actions to reduce costs in their own businesses, which has led to retailers receiving fewer deliveries, paying additional levies for deliveries, and paying more for the products that are delivered. These issues disproportionately affect rural retailers, who in some cases have had to band together with other businesses in the area to share deliveries.

PRESSURE POINTS

- Minimum order numbers increasing for wholesale deliveries, as well as additional levies on deliveries being introduced
- Higher prices on products at wholesale
- Less frequent delivery schedules being forced on retailers, especially those in rural areas
- Less frequent deliveries are not practical for retailers without space in store
- Ranges had already been cut back during the peak of the pandemic and supply issues have meant that retailers still aren't operating with full ranges

RETAILER VIEWS

“As a rural store, we're at the end of the line. We've encouraged other businesses in the area to band together to be able to meet minimum orders so that everyone benefits and can get the product they need on a timely basis.

I normally have a supplier that comes four days a week, but they've reduced that to two days a week. The problem is that as the products are date sensitive, I can't just order twice as much stock because some of the product goes out of date before I can sell it.

Regulations like Natasha's Law are that much harder to comply with because of a lack of availability of good quality alternatives in the supply chain.”

EMPLOYING PEOPLE

Convenience stores employ over 400,000 people in the UK, with many of those employees being on or close to the National Living Wage (scheduled to rise to £9.50 per hour in April). The group have reported that there are significant difficulties with hiring new people, as interviewees expect to negotiate and in some cases dictate the pay rates that they're going to receive. Retailers in the group were keen to stress that levels of crime in the business, both in terms of shop theft, abuse and violence, was having a negative impact on morale of their colleagues, who are also dealing with the impact of cost increases themselves and their families during a pandemic.

PRESSURE POINTS

- Rising National Minimum Wage and National Living Wage rates
- Higher expectations of pay and hours from new employees
- Harder to find new colleagues in the current market
- Ongoing isolation issues with colleagues leading to issues with cover in store
- Crime in stores continuing to affect morale of colleagues

RETAILER VIEWS

“There's a new expectation that the wages some bigger companies are paying are available everywhere. It's difficult enough to get people in for an interview, and when they do come in they're dictating what they're going to be paid.

We're heading toward a Scandinavian society where everything is more expensive both in terms of wages and product costs. We're on that journey now but everything is moving so fast and it's really unbalanced, so there's going to be a lot of pain in the medium term.”

ABOUT THE UK CONVENIENCE SECTOR

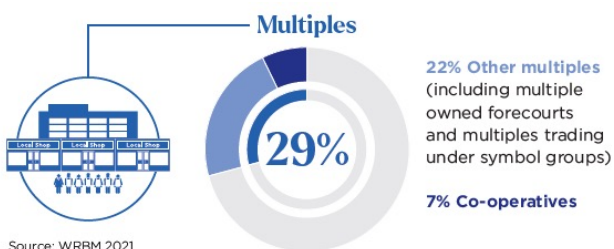
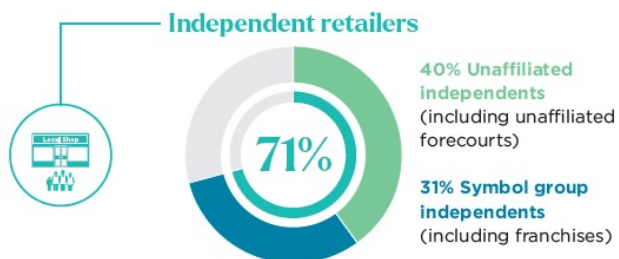
Source: ACS Local Shop Report 2021 (full report available on request)

There are **47,079** convenience stores in mainland UK

Convenience stores in mainland UK provide over **392,000 jobs**

Colleagues in the convenience sector worked a combined **9.6m hours** over the last year

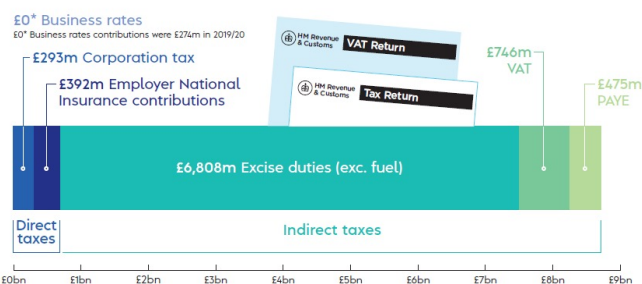
Source: ACS/Lumina 2021



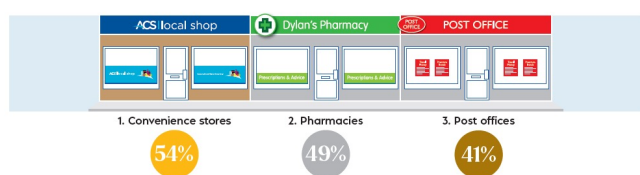
Source: WRBM 2021



Over the last year, the convenience sector contributed Over **£9.8bn** in GVA and over **£8.7bn** in taxes



Most positive impact on the local area



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