



# 2020 RETAIL THRIVE GUIDE

PEOPLE AND TRANSFORMATION

# FOREWORD

At the time of writing, New Zealand's retail industry is faced with the third of four proposed minimum wage rises. This is putting real pressure on business success, not to mention business owners and how they will respond.

Whilst as employers you may baulk at the new mandated wage environment, your best course of action is to quickly focus on strategy, planning and execution. However, ensure that you continue to engage with advocates such as Retail NZ on this issue.

With the minimum wage rate changes as the catalyst, this guide has been prepared in order to support you on your journey and spur you to challenge your current strategy and operational behaviours to gain a competitive edge.

If you are new to our Thrive Guide and missed out on last year's edition, please [download the report](#) from our website to read more on the insights on technology and people, sales and trends.

We hope you find our Thrive Guides helpful on your journey.



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# HOURLY PAY RATES

## Minimum wage, the living wage and competing for staff in a low unemployment environment.

The minimum wage increases will undoubtedly put pressure on the cost of wages for many retailers, especially in the face of low CPI in respect of Retail Goods and Services last year.

The minimum wage increases represent a 6.78% increase in 2019 and 5.82% in 2020 (Figure 1 below). When compared to the CPI of goods outlined in Figure 1 below, noting the minimum wage increase in 2018 was 7.27%, the pace at which wages are growing is not sustainable without comparative increases in pricing.

In later sections of this guide we outline some of the considerations that will need to be given to streamlining

processes, create efficiencies and/or eliminating processes which add no value.

### What are the upcoming changes?

The Government have confirmed that the minimum wage will increase to \$18.90 on 1 April 2020 and they have announced a plan to increase the minimum wage further on 1 April 2021 to \$20 per hour, with Employer KiwiSaver contributions an additional amount to both figures.

At the same time, those on starting out and training wages will also see a boost in pay to \$15.12 per hour. This rate remains at 80% of the adult minimum wage.

For more information on the minimum wage and starting out or training wages refer to the [Employment New Zealand website](#).

Annual percentage points contribution to CPI, by group, December 2019 quarter

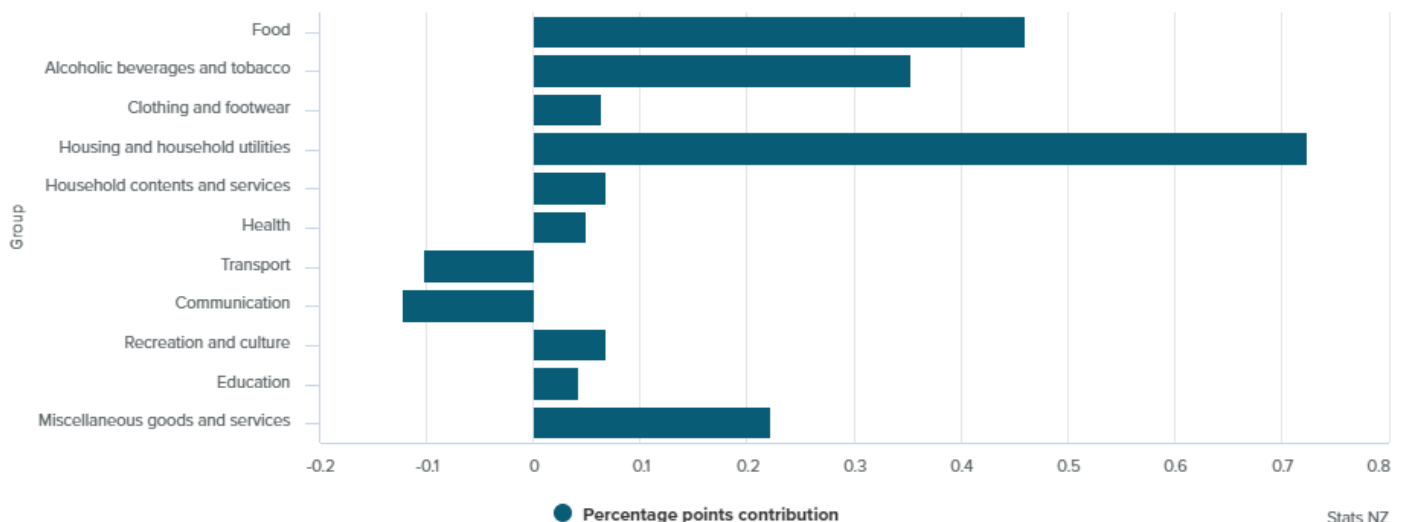


Figure 1: Consumers price index December 2019 ([stats.govt.nz](#))

## What is the living wage?

The concept behind the rate is that it is the hourly wage required to pay for the necessities of life and participate as an active citizen in the community. It takes into consideration basic expenses such as food, transportation, housing and childcare and is calculated by the New Zealand Family Centre Social Policy Unit.

## The current living wage rate in NZ is set at \$21.15 excluding KiwiSaver. The 2020 rate will be announced on 1 April.

The Living Wage Movement Aotearoa is responsible for assessing and awarding accreditations. They are governed by a board comprised of representatives from religious groups, unions and community/secular groups. They are not affiliated with any political party.

The Living Wage Movement Aotearoa outlines advantages of being living wage accredited (on top of the obvious marketing advantages) as reduced staff turnover and increased business. There are also claims that some organisations paying the living wage have seen a rise in employee productivity.

There are currently over 150 employers in New Zealand who are living wage accredited, across a variety of industries including private, public and NGO sectors.

Progressives Enterprises who operate the Countdown Supermarkets in NZ have been vocal about their intention to pay at least the current living wage of \$21.15 to those who have more than 12 months' service from September 2020. This is an example of accepting the changing business environment by adapting your strategy to appeal to customer desires and differentiate from competition.

## How can I manage the increases?

### Our advice to small businesses around managing the impact of the minimum wage increase include:

- ▶ Understand the full impact of the minimum wage increase, including how the increase will impact holiday pay calculations and the associated increases in ACC, KiwiSaver, holiday pay and other entitlements.
- ▶ Analyse the impact wages have on Gross Profit percentage (GP%) and recalculate customer prices as necessary. Undertake regular pricing reviews.
- ▶ Communicate well in advance to customers any potential price increases, outlining the drivers for the increase.
- ▶ Consider opportunities to improve operational efficiencies. These increases are a reminder to businesses to be continually improving business processes, pricing and your target customers.
- ▶ Payroll system – Businesses need to have IT and payroll systems capable of managing these changes seamlessly. Consider systems like iPayroll that can manage your PAYE for you and withhold the relevant tax deductions from each payroll payment to smooth and ease the cash flow burden of paying a bulk amount to the IRD each month.
- ▶ Prepare a budget and realistically forecast your operations for next year, taking account of the increase in wages and any planned price increases. It is likely that other employees who are paid slightly above minimum wage will require increases to maintain their relative position compared to those on minimum wage.

In today's rapidly changing business environment, successful businesses are those that can adapt and respond quickly to new challenges. All businesses need to engage in regular strategy, budgeting and operational reviews.

# OPERATIONAL PLANNING

In the face of people pressures including the minimum wage, the living wage and competing for talent in a low unemployment environment, you can either adapt and seek to overcome, or risk being overtaken by more agile competitors.

So, what levers can you pull to not just survive but thrive?

- ▶ Improved productivity
- ▶ Utilise capacity and reduce excess capacity
- ▶ Manage utilisation of staffing inputs

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*Productivity is about 'working smarter' rather than 'working harder'. It's a measure of how much output we produce from a given quantity of inputs.*

## Improve Productivity

As a nation we are one of the few OECD countries with both a low level of labour productivity and low productivity growth. But we're also the country with a 'can do, number 8 wire' mentality, so there is a great opportunity for us to improve.

Every business is different, so the analysis of your business may result in different outcomes in seeking to improve productivity. This will take time to initially appraise aspects of the operations from a high level and then examine them in detail.

Outcomes may include:

- ▶ Why do we do things that way? By doing it differently we can increase customer engagement and therefore retention or decrease the impact of this on other departments processes.
- ▶ What digital transformation can we deploy to improve our productivity?
- ▶ What changes can we make in the way we work to reduce impacts of work-related injuries or sick days?

## Capacity

The minimum wage increase is a good reminder to review your requirements regarding the optimal level of staff for your business.

Reducing staff numbers or hours is a short-term fix to minimise the impact on the wage expense. Looking at what level of staffing is required in order to achieve quality standards and customer satisfaction should be the first consideration, then working back to compare this to current staffing level.

- ▶ Are you adequately staffed overall, including at departmental level if applicable?
- ▶ Could any existing staff be redeployed within the business if there is excess capacity in one area and understaffing in another?

There are multiple digital tools out there to assist with assessing capacity and rosters such as [Reveal](#) and [Deputy](#).

Can these tools enable you to pick some low hanging opportunities quickly?

## Manage utilisation of staffing inputs

Many inexperienced business managers forget that your full complement of staff has some built-in level of capacity to serve current customers.

If the team does understand that, is there a cross pollination of skill sets to enable someone who works in area A to cover X hours of someone in area B when they are away? Or can some tasks be allocated to different people with excess capacity. Of course, all of this is reliant on the culture of your operation which we discuss later in the guide.

Some other key initial questions:

- ▶ Do you and your managers understand what capacity you have available?
- ▶ Do you review leave balances monthly and develop leave plans for staff with high leave balances?

- ▶ Do your managers have a process to follow for making decisions about staffing public holidays and for when team members are on extended periods of leave?
- ▶ Do you have a policy on when alternative leave days should be taken?

## Measuring wage costs

Always remember you can't improve what you don't measure.

As part of your monthly processes you should be measuring your wage inputs as a percentage of sales and reviewing the outcomes. Depending on your needs or systems' sophistication you may also look at non-financial numbers such as top ten leave balances, number of hours worked, sick leave etc.

In a perfect world you would also be comparing these figures against the forecast you diligently prepared before the start of the year.



# PEOPLE MORE IMPORTANT THAN EVER

## Attraction

From the beginning you need the right people – sounds easy, right?

But when there are record, or near record, low levels of unemployment, how do you attract the best people, particularly if your workforce is predominately at the new minimum wage pay level or that is the starting point?

How do you ensure that employees who are leaving other organisations to work for you are leaving for the right reasons? For example, we recently heard from a business owner that a competitor is raising pay rates but lowering hours and expecting higher productivity. As a result, that competitor's staff are arriving on his doorstep for job opportunities but those looking to avoid the higher productivity requirements may not be the right employees for their business, no matter what their experience.

Have you defined what attributes are important in people so you can target them and ensure they are retained? A brief starting list of attributes could include:

- ▶ A great attitude to work
- ▶ Believe in what you sell
- ▶ Desire to progress through the business

Money is important, but so are the training opportunities or other benefits. All these factors should form part of your plan on how you engage with employees. What mechanisms do you already have in place but don't get full value from? Some organisations could do better at formalising the training they offer into development plans or outlining the opportunities that come from the experience of working there.

Some key questions:

- ▶ Are we employing the right people?
- ▶ Are we attracting the right people?
- ▶ Could we formalise our training into development outcomes?
- ▶ What benefits do our team get from their experience in the future?
- ▶ Do we measure how long our team members are with us and is that changing?



People have different needs and desires as well as different qualities, experiences and education levels. Do you have a clear picture of what the right person for your business looks like?

In a general sense what do you look for in your people? Who should be retained and how? What factors define a good cultural fit for your business?

## Culture

For an organisation to thrive, attract and retain the right people, your culture needs to be part of your business DNA.

Culture is a big topic and we can't do it justice briefly in this guide, but we encourage you to understand it, review yours and involve the team in owning it.

- ▶ What differentiates your culture?
- ▶ What are your defining values, and do you live these authentically?
- ▶ What is the vision for your organisation and do your employees know what it is?

## Retention

Retention is not about retaining all your team but about retaining the right people. You are unlikely to achieve this without planning and the right culture.

The key focus for retention should be on those who are already exceptional performers and those that are able and willing to develop their skillsets and improve your business as a result.

A great strategy to retain people is to instil a culture of coaching and development. When we play sport, we generally have a coach whose role is to ensure that we perform to our best on game day – is this any different at work, or is that just a big game too?

- ▶ Who are your key employees that are exceptional performers?
- ▶ Which employees are willing and able to develop?
- ▶ What plans could you put in place to retain those people?
- ▶ Do you have a coaching culture?
- ▶ How do you bring coaching and development into your culture more effectively?

## Recognition and Reward

Finally, recognition and reward are a key component. For some people the way you recognise them is important, some like big public announcements and others a quiet word of thanks on the side. Do you know how to recognise the efforts of your team?

In terms of rewards, the use of experiential rewards is underplayed. Some examples:

- ▶ You want a team member to improve the presentation of their area so set a benchmark to achieve with an understanding that if that is achieved you will take them to visit another business whose presentation is exceptional.
- ▶ The team need to build knowledge of financial aspects of operation and once they understand X you will send them on a course. BDO offers a one-day course, [Colour Accounting](#), in partnership with ServiceIQ which lays the knowledge of accounting matters over something we all know and understand – colours and shapes.





# LEADERSHIP

*“Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion.” Jack Welch*

So much has been written and studied about becoming a great leader in business. Why is it so important? Ultimately leaders get results - to do that, they need a clear vision of where they are heading.

## Leading vs managing

Leaders inspire others with their vision and motivate them to action toward a common goal, whereas management is the process of controlling resources or staff. To be successful, businesses need both and in a small business one person, usually the owner, has to wear both hats.

- ▶ Are you leading or managing?
- ▶ If you are leading who is taking the management responsibility?

## Authenticity

Leaders that demonstrate they are being upfront and approachable are more likely to be trusted by their staff.

For example, you could provide genuine praise to staff for a job well done. Equally, having a hard conversation about poor performance in a tactful but honest way can also demonstrate authenticity.

Top tips for being a great leader

- ▶ Be authentic, walk your talk
- ▶ Set aside time regularly to consider the strategic issues facing your business
- ▶ Keep a record of situations you face as a leader – could you approach it differently if the same problem arose in the future?
- ▶ Choose a leader you admire – what are the particular qualities they possess or actions they take that resonat with you? Are there some small changes you could make today, next week, and next month that would help you be more like that leader?



# DIGITAL TRANSFORMATION

## A JOURNEY

Digital transformation is a broad term that encompasses the use of smart new technology to solve problems, integrating technology into all areas of your business. The use of cloud computing is a good example. A paperless environment is also part of the transformation. But these examples are just the start... digital transformation is about survival in an increasingly competitive world. It is not a "nice to have" optional extra, it is an imperative.

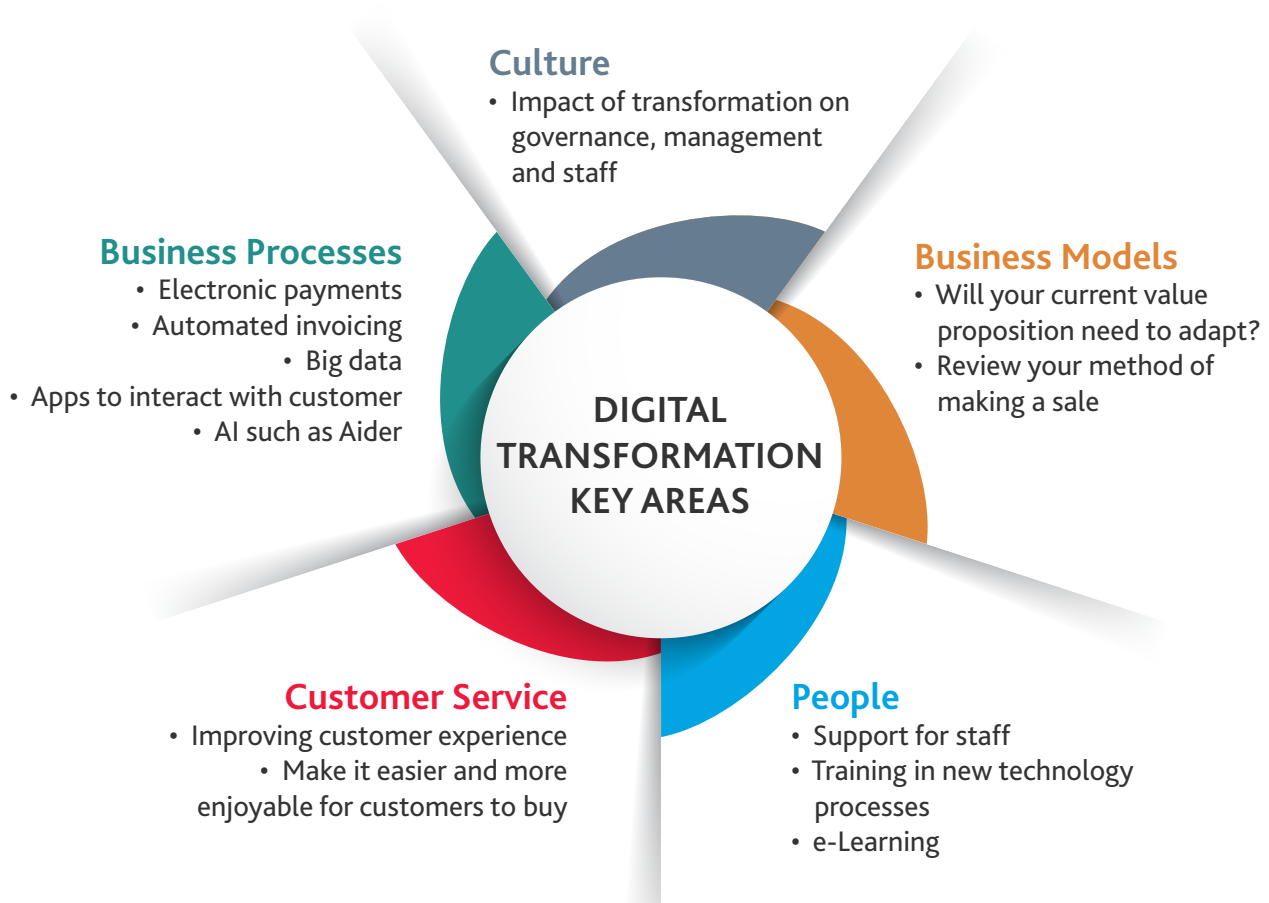
Digital transformation is inescapable—in more ways than one. Searches for "digital transformation" on Google have increased by roughly 1,900% in the last five years alone. For good reason: competing in a digital economy requires becoming a digital business too.

### An economic case for transformation

A McKinsey article, studying ten industries including retail, found there was a significantly positive economic impact for those businesses engaging with digital transformation. On average they found that digital transformation can boost net profit by more than 50% for those businesses that apply all levers – a combination of digital sales channels and reducing costs through shifting [customer interactions to digital channels](#) and automating internal processes. However, not all industries benefit from transformation equally. Some, like hotels and airlines, are more exposed to digital sales. Regardless, it appears there is a serious economic case for all business to start or continue the journey of transformation.

### Digital transformation areas

Because digital transformation is so wide ranging, it impacts many areas of a business, such as:





## Challenges to navigate

Digital transformation initiatives fall short for four primary reasons:

1. Lack of leadership or vision
2. Poor communication and project management
3. Employee pushback
4. Lack of skills and/or insufficient funds

Change is hard whether it's digital or not and too often, facilitating that change is treated as an afterthought. That's where an intentional approach to digital adoption and business enablement comes in. For digital transformation to succeed, organisations must focus as much on the why and the how as they do on the what.

As with any form of change there are some downsides to be aware of:

- ▶ Data security is paramount. Do you have a sufficiently robust system to deal with such threats?
- ▶ E-learning for staff training. Do you have checks in place to ensure staff are taking in the training, perhaps some mini knowledge checks built in?
- ▶ Get comfortable with failure – if something doesn't work do you have an organisational culture that allows you to quickly move on?

## So where to start?

- ▶ Reviewing existing business processes and technologies to see if any can be transformed. For example, do you still print receipts for customers? Could you send them by email instead, or have them automatically sent? What technology would you require to allow this? How much would it cost to implement? What impact would it have on improving the customer experience?
- ▶ Consider the parts of your business process where your customers still demand or desire human interactions. Digitising the whole customer experience could turn some customers away. You can still provide digital tools to help staff provide excellent service.
- ▶ Write a plan (that suits the complexity of your business) for the transformation journey including a realistic timeline for change and key inputs/resources required. Share a summary with staff ahead of time and be ready to provide them reassurance.

# TIME TO PLAN

Take the time to determine some key actions on the back of the information from this guide.

To help you on your journey we've included a simple table below. When considering each of the key areas this guide has explored, ask yourself what your business should start doing, stop doing and keep doing.

Below are some initial questions/prompts to consider when completing the table:

## Minimum wage impact

- ✓ Your payroll system will automatically update minimum wage on 1 April?
- ✓ Have you considered a cloud-based payroll solution?
- ✓ Have you calculated the financial impact the increase will have?
- ✓ Have you updated your budget?
- ✓ Have you reviewed pay rates for those more skilled employees?
- ✓ Have you reviewed your customer pricing strategy?

## Operational planning

- ✓ What ways could you increase customer engagement?
- ✓ What reorganisation could be made to utilise capacity efficiently?
- ✓ Do you review leave balances monthly?
- ✓ Do your managers have a process to follow for making decisions about leave?

## People

- ✓ Are you attracting the right people to your business?
- ✓ Is your culture right for your business?
- ✓ Do your people know your vision?
- ✓ Are you engaging your exceptional performers?

## Digital Transformation

- ✓ Identify business processes for transformation
- ✓ What technology is required for transformation?
- ✓ What are the costs/benefits of implementation?

WHAT ACTIONS SHOULD YOU TAKE	START	STOP	KEEP
HOURLY PAY RATE			
OPERATIONAL PLANNING			
PEOPLE			
LEADERSHIP			
DIGITAL TRANSFORMATION			

# BDO'S RETAIL SERVICES

## BDO's retail advisory services include:

- ▶ Performance improvement
- ▶ Cash flow management advice and forecasting
- ▶ Debt repayment and structuring advice
- ▶ Process review and mapping
- ▶ Merger and acquisition services
- ▶ Business recovery and insolvency
- ▶ Forensic services
- ▶ Corporate finance
- ▶ Risk management
- ▶ Succession planning
- ▶ Valuations
- ▶ Technology advisory
- ▶ Financial literacy training
- ▶ Business review
- ▶ Strategic advice

## Our tax and accounting services include:

- ▶ Compliance
- ▶ Indirect taxes (e.g. GST and PAYE)
- ▶ Pre year-end tax planning and tax returns
- ▶ Tax provision and deferred tax preparation and review
- ▶ Tax policy advice
- ▶ Technical accounting services

Data is an integral part of our retail advisory offering. Using the latest technology, we can gather a broad range of information to help your business improve:

- ▶ Product mix by considering product margins
- ▶ By using cutting edge analytics software, we can map key traffic points and times to assess how customers are interacting with your store. Using this information, we can work out where to place high value items. This also enables you to optimise staff rosters to better meet customer needs
- ▶ Use your point of sale system to guide you on individual sales staff performance and commission structures
- ▶ Gather data from other businesses in the same or similar industries to offer additional insights
- ▶ Identify trends and act on them
- ▶ Gather data from other businesses in the same or similar industries to offer additional insights

BDO's technology advisory service will offer you recommendations on which retail technologies will help your business reach its wider strategic aims and how best to leverage these with your current cash flow.





## CONTACT US

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For more information on BDO's Retail Services, go to [www.bdo.nz/retail](http://www.bdo.nz/retail)

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