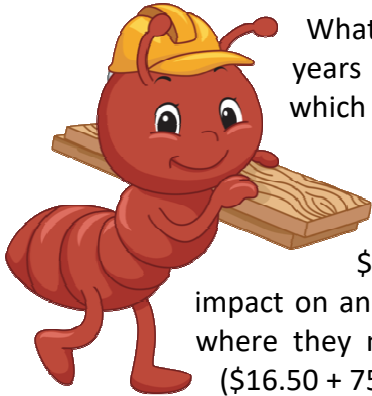


IMPACT OF MINIMUM WAGE INCREASE



What might an Employer need to absorb in wage costs over the next 4 years as we progress to the minimum wage target of \$20 by 1 April 2021 which the government wants to achieve?

Our example that follows is a position where one may have 10 employees currently being paid the minimum hourly rate being \$15.75. The increase to \$16.50 per hour could possibly have the same impact on an Employer who is currently paying an employee (say) \$16.50 an hour where they may have to take this employee's pay to an hourly rate of \$17.25 (\$16.50 + 75c).

If this increase is not able to be immediately passed by way of a price increase then to maintain profitability most business owners/operators are going to have to find other ways to keep running the business more efficiently.

The following factors then will need to come into play:

- Time to innovate and have technology play a better role – not necessarily an immediate fix (subject of course to the required investment) but overtime this could prove a cost saving.
- Other areas in your business to reduce costs – hard and unlikely to be at the level required.
- Reduce employee numbers so that (say) in the model attached by 2021 you can generate the same level of services with two less full-time employees.

In our opinion its likely going to be a combination of a price increase and driving employee efficiency.

The consumer/customer is going to have to absorb some of this cost and should be accepting of this given the Governments motivation behind the wage rises.

At the same time businesses should be looking at ways to deliver more 'bang for their buck' to the client/customer, which helps them feel that with the price increase they have/will receive, that they are getting something more back in the way of value.



That could come by way of:

- A better customer experience and there are still many consumers out there who are only happy to pay for a better experience, this could include:
 - More personalised service.
 - Customer retention strategies to increase customer loyalty such as 'special deals' which rewards customers based on their frequency of visits.
 - Greater focus on advertising to reach a wider market.
 - Ensuring your business has a point of difference to other businesses in the same field and that the customers are made aware of this.

Does an increase in the minimum wage mean that there's more money in the consumers pocket to except a price increase? Time will tell!

A POSSIBLE EXAMPLE FOR THE HOSPITALITY INDUSTRY

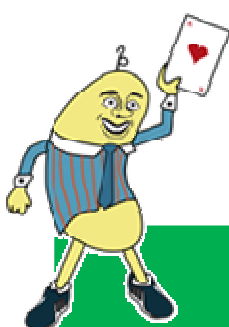
Analysis of Wage Cost based on the new Minimum Wage Proposal

\$15.75 to \$16.50

	\$
Current Wage Cost for 10 FTE's (\$15.75)	327,600
New Wage Cost for 10 FTE's (\$16.50)	343,200
Increase in Wage Cost	15,600
Kiwisaver @ 3%	468
ACC	100
Overall Increase in Wage Cost	16,168

\$15.75 to \$20.00

	\$
Current Wage Cost for 10 FTE's (\$15.75)	327,600
New Wage Cost for 10 FTE's (\$20)	416,000
Increase in Wage Cost	88,400
Kiwisaver @ 3%	2,652
ACC	566
Overall Increase in Wage Cost	91,618



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