

strategies to overcome the minimum wage increase



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If one-third of your costs rose by 20% over three years, would your business survive?

My first employer doubled my wages every year until Prime Minister, Sir Robert Muldoon, instigated a wage and price freeze to curb inflation. My employer was my Dad, I was aged six, and an increase from five cents to ten cents a week wasn't going to hurt his dairy's finances. The minimum wage increases are a different story.

Date	Min. Hourly Wage	% Incr. from \$15.75
March 2018	\$15.75	–
April 2018	\$16.50	+4.8%
April 2019	\$17.70	+12.4%
April 2021	\$20.00	+27.0%

On 1 April 2019 the minimum wage will rise to \$17.70/hour, rising to \$20/hour by 1 April 2021.¹ Workers on higher wage rates will want to keep relativity to the minimum wages. ANZ analysts suggest that a typical hospitality business could see an overall wages and salaries increase of 20% between March 2018 and April 2021. Sales would need to increase by 7%, or other costs decrease to compensate.

Your businesses already struggle with skilled labour shortages and stress for overworked owners. Now is the time to prepare for change.

Values, purpose and uniqueness

If your values, purpose and uniqueness resonate with your customers, they will be back time and again. The right business strategies will incorporate these.

Your business's core **VALUES** are at the heart of what you do. It provides clarity and makes decisions easier. When your actions align with your values, you feel confident and at peace. If a behaviour annoys or upsets you, it may be that it is in conflict with your core values. It reflects in the look and feel of your establishment and the food you serve (e.g. Fast and Fresh, Tranquil, Family Friendly).

If your customers and employees relate to your **PURPOSE**, they will remain loyal. According to Simon Sinek, the Wright Brothers were the first team to achieve motorised flight because their purpose was inspirational.² Your purpose may be to share your signature style of cuisine with the world, to feed families with wholesome food or it may be to build neighbourhood communities.

If you offer a **UNIQUE** experience, then you can price accordingly. Dans Le Noir at Rydges Auckland has a blacked-out restaurant with blind wait staff. Customers are led into the restaurant in single file, cannot see to eat, and have a few giggles when a neighbour spills a drink. They leave with more empathy for the visually impaired.



Download Serena Irving's "Business Strategies to Overcome the Minimum Wage" webinar from her 90-minute workshop in February 2019: restaurantnz.co.nz/product-category/view_webinars

Basic Business Strategies

Sell More

- Increase prices
- Upsell
- Flexible menu pricing
- More advertising

Increase Capacity

- More tables
- Breakfast service
- Extra dinner service
- Rent space and equipment
- Customer experience

Additional Services

- Rent space and equipment
- Customer experience

Reduce Overhead Costs

- Better utility plans
- Negotiate interest terms

Cut Staff Hours

- Owner works longer hours
- Reduce other staff benefits

Reduce Food Costs

- Flexible menus
- Seasonal produce
- Reduce portion sizes
- Supplier agreements

Improve Efficiencies

- Automate booking and/or ordering systems
- Improve workflow
- Cut wastage

Business strategies

In a recent poll, two-thirds of hospitality employers told the Restaurant Association they would raise prices in response to the higher minimum wage. But raising your prices too high will cause customers to go down the road or dine at home. Look at the table of strategies and compare it with your values. Which strategies align? If you adopt one strategy, what is the flow-on effect? What else would need to change?

Forecasting and budgeting

With business strategy in hand, how will you pay for it? Will you see a positive

return from the effort? With the help of your accountant or bookkeeper, create a monthly or weekly budget of your expenses and capital expenses. Forecast your expected revenue, considering seasonal fluctuations. Work out how much extra investment and borrowings you will need.

The minimum wage is rising and with it your labour costs, so the impact for your business will be huge. Increasing menu prices and working longer hours are not the only answers to this problem. Will you be ready with a clear strategy that aligns to your values, purpose and uniqueness?

ABOUT THE AUTHOR

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Sources:

1. beehive.govt.nz
2. https://www.ted.com/talks/simon_sinek_how_great_leaders_inspire_action

RESTAURANT ASSOCIATION 24-HOUR SNAPSHOT POLL

How do you plan to respond to the 2019 minimum wage increase in your business?

