



Business Forum Report, July 2021

A fair pay food sector

How can food businesses ensure everyone in their own operations and food value chains get paid and treated fairly?

A fair pay food sector in context

The real Living Wage is the hourly rate that employees need to meet living costs in the UK. Living Wage accreditation requires employers to pay the Living Wage to direct employees, and suppliers and contractors.

The real Living Wage rates are higher than the government-set National Living Wage. They are independently calculated by the Resolution Foundation, using the minimum income standard and then recalculating the more costly items such as transport, housing and childcare, according to the best available data sets for London and the rest of the UK.

The recommended rates are overseen by the Independent Living Wage Commission, which is made up of Living Wage accredited employers, trade unions, civil society and independent experts. As many of the commissioners are employers, they have an excellent understanding of what it means to balance the needs of the business with the needs of their staff to make ends meet.

“We need to change our conversation to really look at what are the root causes and what are the realistic steps we can do and begin to talk about progress that we’re making towards a Living Wage and a living income in our global supply chains, rather than lots of great commitments but not much progress.”

Food sector wages

Many food businesses have had a tough two years, and even those that stayed open during the pandemic saw their incidental costs increase. However, a relatively strong financial performance alongside the crucial role that food sector employees have played during the COVID-19 crisis has shone a spotlight on the low pay of these employees.

A report by the Food Foundation in July 2021 (Broken Plate 2021) found that in 2020, 25% of workers in the food sector earned the Minimum Wage or below in comparison to 11% of workers across the UK. It also reported that levels of food insecurity amongst workers in the food sector were much higher than the population average during the pandemic, with 14% of food sector workers having experienced food insecurity in the six months to January 2020 in comparison to 9% of the general population.

Living Wage Foundation research has shown that 42% of supermarket workers (including cleaners, security,

drivers and warehouse staff) are paid less than the real Living Wage (£9.90 across the UK and £11.05 in London). This equates to over 366,000 workers. Women and BAME employees are disproportionately affected by low pay in supermarkets.

Benefits of a real living wage

For workers

The poorest one-fifth of UK households need to spend 40% of their disposable income on food to meet the costs of the government’s recommended diet. That is in comparison to 21% of disposable income in the next quintile up, and just 7% of the richest one-fifth’s. This makes it very hard for the lowest paid workers to maintain a decent standard of living.

Staff on the Living Wage report that they earn enough money to support their families, invest in their children’s education (e.g. by buying a laptop) and save for a rainy day. They are proud to work for a company that prioritises staff pay and more likely to be happy in their job. They report other benefits to working for a Living Wage employer too, such as more cross-skills training and not having to take on a second job to make ends meet.

To date, the Living Wage Foundation has accredited 9,500 organisations across the UK and recognised over 160 service providers. Collectively those organisations have uplifted over 320,000 staff to the real Living Wage and put over £1.7 billion back into low paid workers’ pockets.

For businesses and the economy

When workers have more money in their pockets, they spend more, including on food, benefiting businesses and wider economy.

Research by Cardiff Business School found that 93% of Living Wage businesses have experienced clear improvements of KPI’s e.g. retention of staff, improved motivation and better relationships between staff and their managers. A significant 86% of accredited employers said that it had improved their reputation.

In February 2021, US retailer Costco raised its base rate wages to \$16 an hour (\$1 more than the Democrat administration’s proposed Living Wage). Over half of Costco’s 180,000 employees are paid \$25 an hour. The Costco CEO sees the move as good business and a significant competitive advantage, minimising turnover and maximising employee productivity.

Barriers to a real Living Wage

Price and cost pressures within the food system are the biggest barriers to companies paying better wages.

Labour costs represent a high proportion of overall operating costs, and many food businesses operate on wafer thin margins. If labour costs go up, there are two possible results. Either the price of goods goes up, leading to inflation (which puts more pressure on the low paid), or savings must be found elsewhere usually by outsourcing production to, or importing goods from, countries with lower labour costs.

“Food is cheap, far too cheap.”

In the global food supply chain, unless a commitment to a Living Wage is linked to a commitment around sourcing, it could lead to everyone moving their sourcing to another country. Similarly, if UK labour costs went up because of a Living Wage, it might shift the sector towards greater automation, or to outsourcing labour outside of the UK.

Adopting a living wage does not solve the food sector issue of lack of skilled workers (e.g. butchers). Labour shortages in the food sector also need to be addressed, e.g. by supporting apprenticeships and offering relevant courses and qualifications.

There are concerns in some food businesses around the risk of being an early adopter and losing out to competitors. Some point out that unless everyone moves to adopt it at the same time, nobody will.

Introducing the Living Wage in the food industry will not always raise the pay of migrant workers, because many pay additional costs (e.g. recruitment fees or bonds) to agencies. The only people benefiting in those circumstances are (sometimes illegal) gangmasters or traffickers.

Supply chains and the Living Wage

To ensure low pay is not outsourced, businesses must include contractors and suppliers in their commitment to fair wages. However, requiring a supplier to implement a Living Wage without understanding or addressing the underlying issues may have unintended consequences. The supplier might reduce the number of workers they employ or cut workers' hours. That is why the top priority should be the best interest of the workers.

Implementing a Living Wage across global supply chains is a challenge, but the success of the Living Wage Campaign in the UK is a good blueprint. It can be difficult to understand what a Living Wage looks like in the different jurisdictions across which a business works. Access to the required information is a

necessary step for all businesses – including SMEs – to implement the Living Wage.

Work is ongoing to understand the gap between current and fair wages in different sectors and countries. In the meantime, having one consistent definition of a Living Wage, and using it to benchmark wages across global supply chains is a start. It does not deal with the root causes of *why* there is low pay in a sector, but it identifies *where* there is low pay and starts a conversation about *how* to address it.

Accreditation schemes similar to the UK's are being set up in around 12 countries. As part of this work, the key challenges have been identified that business face when they want to implement the Living Wage across their supply chain, and what a Living Wage looks like in the jurisdictions in which they operate.

Investors and ESG

The short-term nature of business cycles, where company share prices are determined by quarterly profits, drives down costs, including wages. In this way, capital markets could be said to capture the lion's share of the value in the food system. Arguably, this needs to be rebalanced.

One way to do it is by investing in the workforce and a good job strategy that pays better wages, creates operational efficiencies, reduces prices, increases productivity and can increase quality. This benefits workers, the business and investors.

ESG (Environment and Social and Governance) issues are increasingly important to the investment sector. It is estimated that c1/3 of assets under management are managed with some sort of ESG integration (around \$53 trillion). The 'S' of ESG has historically been of less interest to investors than environmental and governance issues. This is partly because social issues are harder to quantify, measure and integrate into investment models. However, more investors are engaging with the 'S'. Some institutional investors see Living Wage accreditation as an indicator of good management and attitude towards the workforce.

ShareAction's Good Work Coalition of investors and the Living Wage Foundation are focused on the food system and food retailers because of the concerns around how food workers have been treated during the COVID-19 pandemic.

ESG issues are all interrelated. People from a BAME background are more likely to be paid less and have more insecure hours than white people in the UK. Soy-bean farmers paid a fair wage will not have to cut down

as much rainforest to make ends meet. Food sector workers paid a Living Wage will not have to buy cheap ultra-processed foods that are bad for the environment and our health.

“We’re increasingly talking about wanting to help create a more regenerative food system and we definitely see paying a fair price, human rights, as part of regenerative agriculture.”

Scaling up the Living Wage

Supporting suppliers

The key ingredients to getting suppliers on board are trust, taking a holistic view, effective due diligence towards supplier costs and understanding supplier business models. Businesses wanting to implement the Living Wage in their supply chain must provide practical guidance and support. A Living Wage may require supply chain rationalisation, but will also help to establish longer term, more secure relationships.

A garment sector initiative supporting businesses and suppliers with a Living Wage is Better Buying. Run by a third-party organisation, it surveys suppliers on behalf of a company and asks questions that might be difficult for a company to ask directly. It is an anonymous feedback mechanism that gives companies a better picture of the challenges it is facing.

Government policy

A clear government policy on what constitutes fair pay and a decent living would create a level playing field across all sectors. Arguably, campaigns like the Living Wage Foundation and the Campaign for the Real Living Wage have come about in the absence of government activity in this area.

There is a school of thought that mandating a real Living Wage would create inflationary pressure and increase unemployment. This argument was raised before the Minimum Wage came into being in the 1990s and was proved to be baseless.

Another way the government can influence fair pay is through the National Food Strategy, which the UK government is due to respond to in early 2022.

Compelling case studies

Case studies of (food) businesses that pay the Living Wage would help others explain its benefits to internal and external stakeholders, including investors. They should set out the steps a business took to roll out the Living Wage, and what arguments were used internally to support the policy.

CostCo is a good case study. Unilever committed in January 2021 to requiring its global supply chain to pay a living wage, and could be a case study, but it is too soon to draw out learnings. It would be useful to have case studies from the budget end of the food sector.

“... seeing where we sit in the realms of the food system is always useful for me to communicate with our senior team.”

Pay differentials

UK listed companies must publish their pay ratios between the highest paid, the median quartile and the 25th quartile. Research by the High Pay Centre shows that food retailers have one of the biggest pay ratios of any sector in the UK. The average CEO to median employee pay ratio in the food sector is 140 to 1. Some of the largest supermarkets pay ratios are 300 to 1. This shows a lot of value being captured by the supermarkets, with the large share going to the highest paid executives.

The COVID-19 pandemic shone a light on the low pay and treatment of key and front-line workers. It also revealed how they are critical for the success and resilience of our societies, which has led to many people questioning whether such large pay ratios are fair. There have been several shareholder revolts over executive pay in recent years, which could be an early indicator of change. There is an argument that pay could be redistributed in the food retail sector to allow them to pay better wages to front line and key workers.

Wider issues of fair treatment in the workplace

Living Hours

Insecure (not enough and not regular) hours are a determinant of fair treatment in the workplace, and is particularly acute in the supermarket sector. Research by the Living Wage Foundation found that a typical supermarket employee works 28 hours per week in comparison to 37 hours across other sectors. Insecure hours drive costs up for employees. Being forced to take a short-notice shift means a worker pays more for last-minute childcare. Irregular shift patterns mean workers can't buy cheaper advance bus or train tickets.

To avoid this, businesses can commit to Living Hours. Run by the Living Wage Foundation, it requires decent notice periods for shifts (at least four weeks), and a right to contract within living hours (minimum 16 hours a week). This could be a big opportunity for businesses in the food sector; offering high wages and consistent hours delivers benefits to the business *and* staff.

Living Pensions

The Living Wage Foundation is looking at what amount of money workers need to put away each month to ensure they have a decent standard of retirement. It is working towards a scheme to accredit businesses on that basis.

Giving workers a voice

Unionisation remains relatively strong across large chunks of the food sector, but has dropped off, compared to previous years. This must be remedied, so that the worker voice is heard and valued in discussions about pay and benefit packages. Whether by unionisation or other mechanisms, staff must be able to tell management how policies affect them.

Agency worker rights

Using agency workers in the food sector is of concern. Agency staff must be included in any fair wage policy, otherwise businesses can outsource low pay and not include it in their pay gap reporting.

The Living Wage accreditation requires third party staff to be included. Foodservice providers ISS and Sodexo are two large businesses whose agency staff are paid the Living Wage.

Agency workers can rarely access the same benefits that full employees enjoy (e.g. statutory sick pay). This must be addressed, alongside mechanisms for agency workers to raise issues with management.

New ways of doing business

Implementing a living wage requires thinking differently about supplier relationships. Some food companies are already increasing the number of longer-term contracts with fewer strategic partners to work out how to face common challenges. This kind of secure trading relationship leads to security for workers in the supply chain. Some food businesses have short and circular long-term supply chains. The raw material is sold to suppliers to process, and the end product is sold back to the business.

An important prerequisite for a longer-term relationship is to look beyond just wages and embed supplier performance and capability into the tender process.

“One of the things we're looking at is shorter supply chains, which helps to take away some of the people that might take some of the money out of the food chain.”

Concluding comments

Government has a responsibility to address low pay in the workforce. However, it should not bear the responsibility alone. All stakeholders must tackle the issue if we're going to address better wages, better working conditions, better health, better retirement and all the things that are needed for everyone to have a decent quality of life. This must start with society valuing our front line and key workers much more than it does currently.

What next?

Selected key questions:

- What does a fair supply chain look like, and how can it be achieved?
- How can we ensure everyone in the food system is paid fairly (in the UK and abroad), and at the same time deal with the demand for cheap food?
- How can we roll out the Living Wage across our supply chain, and how do we even broach the subject with our suppliers?
- How can we avoid exporting low pay to other countries?

Further resources

- Food Foundation: Broken Plate 2021 <https://foodfoundation.org.uk/publication/broken-plate-2021>
- Food Foundation: A crisis within a Crisis, the impact of Covid-19 on household food security <https://foodfoundation.org.uk/publication/crisis-within-crisis-impact-covid-19-household-food-security>
- Living Wage Foundation <https://www.livingwage.org.uk/>
- Cardiff Business School: The Living Wage employer experience <https://www.livingwage.org.uk/sites/default/files/Cardiff%20Business%20School%202017%20Report.pdf>
- Prof Zeynep Ton <https://www.zeynepton.com/research/>
- High Pay Centre <https://highpaycentre.org/>
- UN Guiding Principles on Business and Human Rights <https://www.unglobalcompact.org/library/2>
- World Benchmarking Alliance <https://www.worldbenchmarkingalliance.org/>
- IDH Living Wage road map <https://www.idhsustainabletrade.com/living-wage-platform/>
- Fabian Commission on food and poverty <https://fabians.org.uk/fabian-commission-on-food-and-poverty/>
- Food Ethics Council: Food Justice https://www.foodethicscouncil.org/resource/food_justice_report/
- National Food Strategy <https://www.nationalfoodstrategy.org/>
- Better Buying <https://betterbuying.org/>

Other relevant Business Forum reports:

- Food makers 2030: who will make and grow our food in the future?
<https://www.foodethicscouncil.org/resource/food-makers-2030/>
- Beyond food charity: how can the food sector tackle household food insecurity?
<https://www.foodethicscouncil.org/resource/beyond-food-charity/>

This is a report of the Business Forum meeting on 7th July 2021. We are grateful to our speakers, **Martin Buttle**, Head of Good Work, ShareAction; and **Jessica Goble**, Senior Programme Manager, Living Wage Foundation. **Dan Crossley**, Executive Director of the Food Ethics Council chaired the meeting. The views expressed in this report do not necessarily represent those of the Food Ethics Council, nor its members. For more information on the Business Forum, contact Dan Crossley dan@foodethicscouncil.org +44 (0) 333 012 4147.