Deloitte.

A higher minimum wage:
Is your business ready for the new playing field?

Weathering the storm of higher wages

Recent legislative changes raising the minimum wage in Canadian provinces pose a significant profitability challenge to all business as operating costs increase and margins erode, complicating their operating and profit equations.

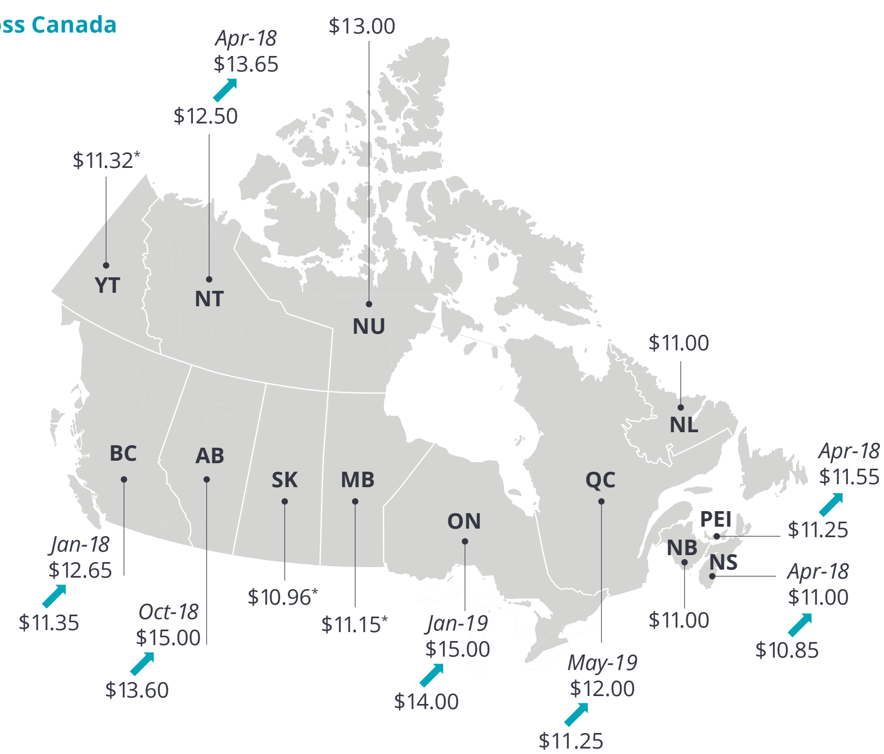
Though the challenge of absorbing uncontrollable rising direct and indirect costs while maintaining (or boosting) profitability is obvious, the need for enterprise-wide transformation is less so. Although immediate reductions to payroll may yield short-term benefits, the ability to take direct action may not be an option for some businesses. As such, business leaders must take a critical look at their current operating practices and business models to identify opportunities and changes that can be made within their control that maintain or improve profitability. Identifying and executing these changes is complex, especially in the context of a slow-growth economy and an increasingly competitive global marketplace.

Irrespective of industry, it's clear that companies need to assess the viability of their current business model within this new framework in order to survive and prosper in the long term.

How Canada's changing minimum wage impacts business profitability

With Q1 results now in the books, businesses are coming to grips with the 20% increase in Ontario's minimum wage, which rose from $11.60 to $14.00 per hour on January 1, 2018, and will increase again in 2019 to $15.00 per hour. This aligns to legislative changes being made across the country; over the next 12 months, seven provinces with follow suit, raising the minimum wage and instituting additional workplace legislation that impacts paid time off and fringe benefits. The resulting increases will be challenging for companies to pass on to customers and consumers in the short term, placing strain on profitability. This strain is further exacerbated by the potential increase of input costs as suppliers seek to recoup their additional minimum wage costs. Many economists and industry think tanks identified payroll as the initial lever businesses would pull to mitigate rising costs, which they predict could have a huge impact on the Canadian economy and could result in significant job loses.

Minimum wage levels across Canada



(*) Minimum wage is reevaluated annually to reflect CPI adjustments
Correct as at January 1st 2018
Source: Statistics Canada

How Canada's changing minimum wage impacts business profitability cont'd

Some businesses have already taken steps to preserve their margins by freezing recruitment initiatives, cutting scheduled hours, and charging higher prices. Several have also reduced paid breaks and reviewed employee benefits schemes, which have resulted in a wave of varied publicity for these businesses.

There's no doubt that this is a major disruptive event that affects all Canadian businesses, amplified by the fact that the economy is experiencing slow growth and increased global competition. Although the biggest effects will be felt in industries such as retail, hospitality, and manufacturing, which have higher populations of minimum wage workers, businesses who interact with those industries along their value chains are definitely not immune. Rising labour costs will have a bearing on all businesses as salaried and hourly workers alike may push for wage differentials to be maintained. Input costs will likely increase as suppliers seek to pass on this increased operating cost, which threatens profit margins, reduces competitiveness, and may challenge the fundamental operating strategies business hold.

To remain competitive and thrive in this new environment, companies must address the effects of rising labour costs by proactively engaging in a thorough analysis of all facets of their business operations. Our past experience shows that labour optimization initiatives alone do not have a sustainable impact on EBITDA and that a comprehensive, enterprise-wide assessment of business viability is necessary to transform, maximize productivity, and unlock sustainable profitability.

Is your business ready for the new playing field?
Consider the following questions:

1. Were your initial financial impact quantifications of the minimum wage impact in line with your actual results?
2. What additional cost increases that will be impacting your business will be implemented shortly?
3. Have you created a plan and started executing changes to maintain and enhance your profitability?

Positioning your business for sustainable profit growth

In response to these uncontrollable external disruptions, many organizations are now prioritizing performance enhancement initiatives to drive profits, including increased investment in technology and automation.

Performance enhancement best practices

We're seeing leading companies adopt the following best practices to ensure that the rising wage floor doesn't impact current and future profitability. Consider how your organization could benefit from these strategies.

Calculate the net effect of the recent wage increase and analyze the viability of your organization's current business model and long-term forecasts.
To remain competitive, you'll need to understand the long-term effects of an increase in salaries, keeping in mind any yearly cost of living or inflation increases.

Establish a cost reduction plan and reduce discretionary spend.
Review your budget to determine how you are driving revenue and managing cash positions, and take action to optimize profit margins and working capital. Consider implementing stronger controls, and rationalize trade and marketing spend.

Re-engineer business processes to maximize efficiencies.
Challenge the status quo of current managerial and administrative activities, streamlining where possible to enhance resource optimization. Consider where technology and automation can be an enabler.

Implement labour optimization initiatives.
Develop a labour forecast based on actual data and conduct a gap analysis of current performance to desired targets, comparing the results to industry benchmarks. Optimize the use of existing labour by minimizing over/under-staffing, the need for overtime, and better manage seasonal fluctuations in demand. Utilize technology to minimize labour costs in the development of schedules.

Analyze customer, target market, and product profitability against macroeconomic forecasts and corporate growth plans.
Conduct a detailed analysis of your customer base to determine purchasing patterns and optimal service models. Assess macroeconomic trends and compare them to your target market, prioritizing your most profitable products and services, and identifying improvement pathways for under-performing offerings.

Assess automation, technology, and AI opportunities.
Leverage innovation and technology to increase value-add capabilities and maximize the utilization of plants and machinery. For example, reduce factory costs by investing in automated and robotic equipment and by automating repetitive, unskilled labour tasks.

Deloitte Performance Enhancement Advisory:

When improving value is imperative

Deloitte's Performance Enhancement Advisory practice helps clients create value by taking a hands-on approach to identifying and mitigating high-impact situations, turning them into opportunities to drive performance improvements that rapidly deliver EBITDA growth and sustainable cash flow.

Through our P*erformance Improvement and Turnaround* (PIT) program, we engage in an end-to-end, enterprise-wide scan and triage assessment to isolate opportunities for performance enhancement and earnings optimization.

Benefits:

Rapid, practical, tactical.
This integrated, end-to-end initiative embeds analytic capabilities to accelerate data collection and isolate inefficiencies. We create, validate, and quantify tactical plans and stay on to execute those plans to ensure improvements are realized.

Deep analytic capabilities and proprietary tools.
We use proprietary tools and accelerators to hasten granular data collection and diagnosis all areas of the business. These tools allow for the rapid isolation of issue areas and speedy implementation of performance improvement initiatives. We leave behind tools and templates to assist you in the ongoing monitoring of your business's performance.

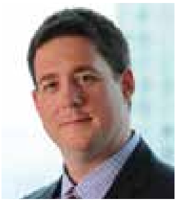
Proven processes.
Our structured methodology is fact-based and rigorous, and accelerates the execution of performance improvement initiatives. Proven tactics bring appropriate process and discipline that mitigate risk and accelerate the realization of profit.

We have completed numerous projects across multiple industries and have a proven track record of delivering sustainable solutions that leverage best-in-class business practices to maximize value.

Contact us

To learn how our performance enhancement programs could help your organization, contact us today.

Performance Enhancement Advisory Team



Adam Brown
Partner
National Leader
Toronto
416-643-8964
adbrown@deloitte.ca

Brian Stewien
Partner
Toronto
416-874-4393
bstewien@deloitte.ca

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