We’re Starting to See the Fallout From Minimum Wage Hikes

Description

Rising minimum wages are forcing many retailers to respond to higher costs, and it’s not good news for workers. In January, we saw **Amazon.com, Inc.** (NASDAQ:AMZN) launch a cashierless store with no checkout lanes, which showed us a glimpse into what the world of shopping could look like in the future. While that might still be years away from being the norm, we’re already seeing a transition towards more self-checkouts, and **Wal-Mart Stores Inc.** (NYSE:WMT) has developed a scan-and-go technology that could accelerate the demise of the cashier position.

Most recently, **Metro, Inc.** (TSX:MRU) has announced that it will adopt scan-and-go technology and increase the number of self-checkout lanes in an effort to minimize the impact of rising minimum wages. At the start of 2018, minimum-wage workers in Ontario got a big raise, and Quebec recently announced that it too would be increasing its lowest hourly rate of pay. The problem for Canadian grocery chains is that raising prices to combat higher costs could be a recipe for disaster if Amazon sets its sights on growing Whole Foods in Canada.

Companies can either choose to automate or fall behind

However, it’s not just Amazon that could undercut grocery stores. Companies that are proactive and adopt cost-cutting technologies and that are able to reduce staff will have a big advantage over those that simply decide to keep their staff and try to weather the storm. The danger to minimum-wage earners is that their jobs are in danger of being cut, as companies look to stay competitive and keep costs as low as possible — something that automation can help accomplish.

The big benefit for grocery stores and retailers is that unlike wage staff, once automation is set up and put into place, maintenance costs will likely be a fraction of the wages and benefits that would have to be paid to hourly workers. The unfortunate result in all of this is that while some people may be better off from the wage increases, many others will lose their jobs as companies look to keep shareholders happy.

The importance of investing in technology

We’re in an era of rapid technological development that makes it essential for companies to look to advance and stay on top of cutting-edge technologies. This is why it is important for investors to consider companies that invest in technology, because not doing so could lead to obsolescence. A good start for investors is looking at how much a company spends on capital and research and development. This will ultimately show how serious a company is about trying to find ways to innovate and stay ahead of the game.

What this means for investors

Companies in Ontario and Alberta, where minimum wages are rising to $15, will be most affected by wage hikes, and investors should be careful to consider retail stocks that are heavily focused on those areas. While we may see other provinces follow suit and raise wages that high, in the short term investors may want to consider looking for companies like **Dollarama Inc.** (TSX:DOL) that may be less exposed to such risks given their low-cost business models, or simply avoid retail stocks altogether.

CATEGORY

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3. TSX:DOL (Dollarama Inc.)
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Date
2025/08/18
Date Created
2018/01/31
Author
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