AMP's pay clampdown

STUART CONDIE
EXECUTIVE PAY

Bonuses scrapped, fees cut to appease investors

AMP has scrapped short-term cash bonuses and cut directors' fees in an effort to avoid a second shareholder strike on remuneration at its annual meeting and a possible board spill.

Chair David Murray said yesterday the wealth management heavyweight understood the revolt last year was a protest against how pay was awarded as well as the company's well-publicised misdeeds. Almost two thirds of shareholders voted against the group's remuneration report at its annual meeting last May.

AMP, which suffered a 97 per cent plunge in net profit last year as it set aside millions of dollars in customer remediation, has also said former chief executive Craig Meller and former advice and banking executive Rob Caprioli will forfeit $10.8 million in unvested incentives.

In its annual report, released yesterday, AMP said this reflected "their overall accountability" for its fee-for-no-service scandal.

The only executive to get a short-term cash incentive was Adam Tindall, the head of the group's investment manager, AMP Capital. With a package worth $3.31 million, Mr Tindall was the company's best-paid executive the past year.

Chief executive Francesco De Ferrari, who started in December, was paid $1.28 million.

AMP said it had to take account of Mr De Ferrari's pay at Credit Suisse, where he was head of Asia Pacific private banking, when it hired him.

AMP was panned at the financial services royal commission for charging fees for services it did not provide and misleading regulators.

The revelations led to the exits of Mr Meller and chair Catherine Brenner, and the retirement of former advice head Jack Regan.

AMP in May cut non-executive directors' fees by 25 per cent with immediate effect, and reduced them again from January 1 this year.

It cut fees to non-executive directors serving on the AMP Capital board from $78,900 to $56,300, and for membership of its audit and risk committees from $16,900 to $10,000.

The chairman's fee will fall from $850,000 to about $660,000 in 2020, with the final amount to be decided in the second half of this financial year.
AAP

KEEPING IT ALL IN THE FAMILY

PATRICK TADROS
SMALL BUSINESS

TAKING work home from the office has long been a source of domestic tension but for many small businesses, it is an unavoidable reality — with family members often roped in to help.

According to new research, 51 per cent of small business owners say family members work alongside them.

One in three say they do not employ anyone but get relatives to lend a hand when they get busy.

Dean Salakas, a business owner who has appeared on entrepreneurial talent search series *Shark Tank*, says he still employs members of his family to help with the demands of running the business.

Mr Salakas took over the family's party-supplies business, The Party People, with his brother Peter in 2007.

"My mother trains new staff and merchandises a few days a week," he said.

"My grandfather assists with store transfers and my grandmother makes us lunch. It's a labour of love, but no family is perfect."

The research, commissioned by Officeworks in partnership with the *Herald Sun*, also found that 11 per cent of owners intend to pass their companies on to family members while 23 per cent see value in selling their businesses and living off the proceeds.

When Mr Salakas appeared on *Shark Tank* in 2015, his business received a $400,000 investment offer from Boost Juice founder Janine Allis.

Mr Salakas turned it down.

He said the decision to walk away from the offer was the right one.

"I couldn't give away half of our family business and even if I considered it, her offer was too low," he said.

"As a family, we have equal goals to grow the shop together and support each other. It's what family does."

Dean Salakas took over the family's The Party People business with his brother Peter.

MARKET WRAP

THE Australian share market lost ground yesterday for the second-straight session as a drop in the price of iron ore put pressure on miners.

The benchmark ASX 200 fell 19.5 points, or 0.3 per cent, to close at 6165.3 points, while the broader All Ordinaries lost 24.8 points, or 0.4 per cent, at 6251.8.

It was "a bit of disappointment," Bell Direct equities analyst Julia Lee said.

The announcement that iron ore major Vale had been given permission to restart production on a shuttered mine in Brazil caused future prices in the commodity to drop 5 per cent, Ms Lee said.

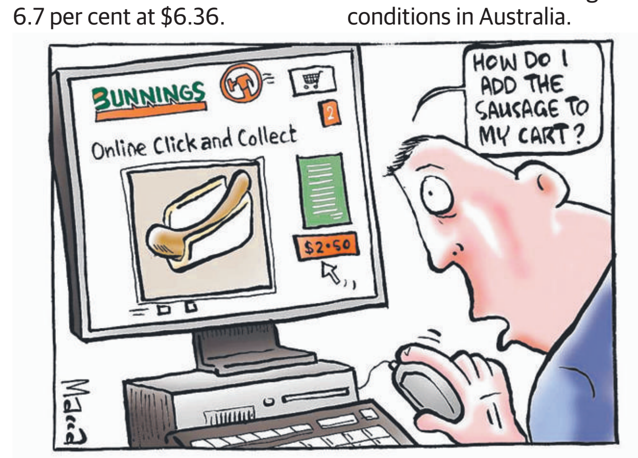
Shares in **Rio Tinto** fell 2.8 per cent to $92.09, **BHP** lost 1 per cent to $37.20 and **Fortescue Metals** was down 6.7 per cent at $6.36.

Tech stocks led gainers, up a collective 1.1 per cent, with **Xero** up 3.1 per cent to $50, **Altium Limited** up 2.9 per cent to $34.48, and **Livetiles** up 12.2 per cent to 50.5c.

The big banks were mixed, with the **Commonwealth Bank** down 0.8 per cent to $70.79 and **Westpac** 0.3 per cent weaker at $26.34. **ANZ** was up 0.2 per cent to $26.35 and **National Australia Bank** gained 0.4 per cent to $25.07.

Wesfarmers rose 0.4 per cent to $34.80 after Bunnings said it aimed to have a full online shopping offer, with click and collect and delivery, in place nationally next year.

Nufarm fell 23.9 per cent to $4.23 after the agricultural company suspended its interim dividend following losses it blamed on drought conditions in Australia.



DOLLARS & SENSE by MACCA

Online shopping just doesn't add up for grocery giants

THE SHORT CUT
with ANDREW MACKEN

AS many Millennials are now reaching the age at which they start to take over the grocery shopping responsibilities, it is not surprising to observe significant growth in demand for online ordering.

On the one hand, this is nothing new. On the other hand, few if any have successfully cracked the code for delivering groceries to the homes of online customers while also generating a profit.

From the perspective of the supermarket, the issue is one of replicating the functions historically taken care of by the customer.

In a prior time, the customer would drive to the supermarket, spend significant time walking the aisles filling up the shopping cart one item at a time.

The customer would then load the items on to the check-out before paying and carting the groceries to the car.

The customer would then load them into the car, drive home and unload the groceries from the car and haul them to the kitchen.

Today, for online home-delivery orders, all of these functions are now the responsibility of the supermarket.

Putting aside the investment in the e-commerce technology required to take online orders and payments, the supermarket needs to pay "pickers" to manually walk the aisles and fulfil orders.

US giant Walmart employs around 35,000 of these pickers today and it might take a picker 45 minutes to fill a $100 order.

Next, the groceries need to be packed into a temperature-controlled truck — itself not cheap — and driven to the customer's home.

This is likely another 15 minutes of an employee's time at a minimum, not to mention the cost of fuel, maintenance and depreciation of the truck.

These incremental costs may not sound like much, but in the context of the very thin operating profit margins at which supermarkets run, they matter a great deal.

On that $100 order of groceries, Walmart is used to earning around $5 before interest and tax.

That's the same as Woolworths here.

Others earn even less — Coles pockets less than $4, the UK's Tesco around $3, while Kroger in the US earns closer to $2.50.

And the incremental costs? In the US where labour is relatively cheaper, all-in incremental costs could be around $12 to $14.

In Australia minimum wages are significantly higher. So too are the incremental costs of online delivery.

Some of these costs are pushed back on to the customer via delivery charges.

Take Kroger, for example. In recent weeks, the business disclosed a 0.93 per cent decline in gross margin, in part due to "investments in supply chain" and an increase in operating expenses due to higher staffing expenses for "digital initiatives".

Could it be true that online grocery sales delivered to a customer's front door are not actually profitable today?

And if so, what is the value of the enormous "growth in online" that is so often touted by management teams?

In Australia, Coles and Woolworths have so far avoided the profit margin headwinds disclosed by their US counterparts.

But for how long?

Today, online sales at Woolworths account for only around 3.5 per cent of Australian grocery sales — but they are growing at an annual rate of nearly 30 per cent.

As online penetration continues to grow — especially the high-cost home-delivery variety — it is difficult to see how the profit margins of Woolworths and Coles can remain unscathed.

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