surviving the retail slow-down

STUART JACKSON WARNS THAT THERE ARE TOUGH DECISIONS TO BE MADE IF YOU WANT TO SURVIVE THE CURRENT RETAIL SLUMP...

Have you been caught napping instead of selling? It is a question that many retailers are answering a resounding "yes" to. Just when business seemed rosy, wham! Sales drop and many commercial decisions made when the going was good now seem strewn with error or even futile.

Why were so many retailers caught out by the change in economic fortune? What can we do about it? What does the future hold?

THE STORY SO FAR

Right up to February this year health food sales were booming and confidence was high but for other trades the slowdown was already under way, driven by a series of interest rate rises culminating in the Bank Of England's August 2004 peak of 4.75%. The preceding years saw a boom that brought easy sales and at times, exceptional growth for the enterprising retailer.

The health food trade suffered a double whammy; on top of a buoyant economy there was an extra push from the Gillian McKeith bonanza. It was this very phenomenon that protected health food retailers from the early effects of a general retail slowdown. Alas, when the McKeith factor ultimately waned, the fall for many was both sudden and hard.

Prosperity had led several to invest in new or expanded premises, an additional store, extra staff, pay rise, refurbishment and even an appreciation for time off and hobbies! That confidence has been replaced with cries for help and desperate tactics intended to lessen costs. Few retailers have experienced real year-on-year growth since last March, a task made extra tough by the buoyant figures of the previous 12 months.

THE ECONOMY

The Bank of England wanted to put the brakes on what it saw as an unsustainable consumer boom and raised interest rates five times between November 2003 and August 2004, from a low of 3.5% to the recent high of 4.75%. Although worried in recent times at the extent of the consumer slowdown, the Bank's monetary policy committee (MPC) failed to reduce rates until August 2005's announcement of a cut of 0.25% to 4.5%.

The Office for National Statistics reports that the annual rate of growth by the economy now stands at 1.7%, its slowest rate for 12 years, and with a steady rise in the number of people claiming jobless benefits. On the high street, retailers across the country have reported difficult conditions since Christmas with the research company SPSL reporting that the number of shoppers fell to its lowest level for four years last month.

SPSL found numbers across the nation were down 2.4% in July compared with a year ago, and were at the worst level since 2001. Meanwhile, a recent Confederation of British Industry report said retailers had not seen an increase in sales since the end of 2004.

Not enough, in my opinion, to restore retail consumer confidence, the recent 0.25% cut is perhaps enough to prevent it falling any further. It was at least the first cut for two years! Standing in the way of further cuts (amongst other factors such as inflation concerns) is household debt, now at £1,000bn. The UK's big banks; HSBC, Lloyds TSB and Royal Bank of Scotland have all reported a rise in bad debt, with more people falling into arrears on loan and credit card payments.

The Bank of England wants to avoid another spending boom that sees this debt position aggravated. At the time this article went to press, predictions were that the Bank of England was likely to leave rates unchanged in September as surging oil prices threatened to fuel inflation. There is therefore no easy solution to our woes in the pipeline.

Consumer spending has underpinned 52 consecutive quarters of economic growth in the UK with Britain outpacing every country in the Group of Seven (excluding the USA) industrialised nations on average in the past four years. Forecasts published by Deutsche Bank AG, however, suggest the UK may compete with France to avoid fifth place among the seven richest nations in the next two years.

So it looks likely that interest rates will not drop far or fast and that we will have to take responsibility for growing sales

SUMMARY

If business is to grow and prosper, it is no use doing what has always been done and burying one's head in the sand. Move with the times in both products and image or risk always being a struggler who benefits from an occasional boom of someone else's making. It takes tough decisions to stay in touch with market demands – it takes a tough leader to make them.

and profitability within our own market. If rates remain at 4.5%, some consumer fear will be alleviated but cautious optimism on the part of the buyer will not generate another boom.

HOW CAN WE REACT?

Hard work along with a clear command of market trends combined with an upbeat sales strategy.

Investigate whether, as a result of last year's sales boom, the business now employs too many people and gauge whether individual efficiency has plummeted because of overstaffing. As it is common for a certain amount of lethargy to creep into any winning team, it may be that the team needs shaking up from the top down in attitude. Reassess your own and each team member's role and contribution to sales and profit. Be wary of a team that has become RE-active rather than PRO-active, fatal when the climate changes and sales have to be chased.

When consumers are spending, less effort is put into fine-tuning the stock range on offer. Customers are less discriminating and more willing to spend freely on impulse rather than on a pre-determined want or need. When the consumer is forced to curb spending there are two immediate casualties: luxury items and products that don't meet modern consumer, often media-driven, demands.

A shop that bases its sales strategy on market intelligence is better placed to survive a downturn in trade. An appropriate product mix, modern packaging, popular ingredients, trendy brands and competitive pricing will stand out against the out of date health food store.

To capture consumers' "necessity" spend, offer the latest in popular food lines and, to compete for a limited disposable spend on luxuries, keep up with the latest in "non-food" trends. Current success stories are herbal remedies, all types of hair, face and skincare, aromatherapy, fairtrade lines, beverages (particularly teas), cereals, snacks, baby foods, baby care, household, homeopathy and pre-packed commodity lines.

To present a modern image, shops should be categorised by product type with clear signage and within each category, block brand merchandised for maximum impact to today's brand loyal consumer. The best place to keep in touch with market movement and opportunity is at trade shows. If you have missed out on this year's events, then make sure you attend Brighton in March 2006.

If you have any questions for Talking Shop or would like further information on Stuart Jackson's consultancy service, contact him on 0131 315 0303 or email stuart@forceofnature.co.uk or visit www.forceofnature.co.uk