



Is this the season to be jolly?

Retailers and investors alike are struggling to decipher the consumer mood in the build up to the critical trading period this Christmas. The question on everybody's lips: is consumer confidence holding up better than many predicted at the end of 2008 when the economy really did feel like it was heading south?

When such industry figures as Sir Stuart Rose said when he unveiled M&S's interim results: "Last year was Armageddon," many lenders sat up and took notice. Retailers did plan for the worst in 2009 and the fact that it has not been that bad has been viewed by many as a positive.

According to CBI's monthly Distributive Trades Survey 39% of retailers said year-on-year sales volumes rose in September, while 36% said they fell. The resulting balance of +3% was better than expected, and follows four consecutive months of falling sales. Looking forward, retailers expect sales will remain broadly flat compared with a year ago.

A more upbeat John Lewis – which reported strong sales recently – has increased its stock levels in anticipation of this Christmas being better than last, although it may fall short of 2007.

Stability returning?

After such a difficult summer, it is encouraging to see signs that conditions in the retail sector are stabilising. However, with unemployment rising, wage growth low, and consumers building up their savings, spending is likely to remain subdued for some time.

In the run-up to the New Year will come the planned increase in VAT on 1 January. It is expected to revert to 17.5%, although there are many pundits – business and political alike – who are not ruling out a higher level, nor VAT being applied to other

previously exempt categories. This sharp increase in VAT may have a throttling effect on any improving retail scene.

The recent spate of warm weather has not been helped as retailers seek to shift stocks of coats and woollens. Money tied up in stock and not going out of the door means reduced cashflow.

Stock control

Christmas does seem to be coming later each year. Therefore lenders need to be aware that although the run-up to Christmas last year was weak, the final few shopping days were better – spelling uncertainty for how the final big days of this year will measure up to 2008.

Furthermore, if they do not start selling this season's stock soon, retailers could be forced to discount and that hits margins. And to compound an already difficult trading period there is research which suggests that spending this Christmas on gift items will remain subdued.

Landlord vs tenant

The recession has not only left retail landlords and tenants fighting for survival, but is also forcing the entire industry to reconsider the ways in which they negotiate and structure long-term contracts.

According to the Retail Bulletin, flexibility in payment structures, terms of engagement with specific retailers and initiatives to find economies of scale are all being suggested as solutions to help landlords and tenants work through the current downturn.

However, formalising these agreements now will be critical for the long-term success of the commercial rental property market.

There's already proof out in the market of retail landlords bucking the trend of vacant properties

because they have agreed new terms with retail tenants, and implemented them across their estate. The only way the retail market can combat the current crisis is through transparent discussions and clear agreements on a joint way forward with new and existing tenants alike.

ABL opportunities

But for lenders the retail sector does offer some glimmers of good news. According to many in the industry there has been a surge of emerging labels and new designer collections popping up. A new generation of entrepreneurs is launching apparel lines, which are looking for funding, and who haven't let the stagnant retail market affect their businesses. That in turn opens up business opportunities for those in ABL.

Small business experts say that anyone with a distinctive and unique product has a good chance of making it during any economic downturn. With so much generic product available, shoppers are looking for something new and exciting.

Over-priced, low-quality goods seem less interesting and fast fashion has failed to obscure a demand for a well made product that shows integrity and relevance.

After all, it takes the skill of a designer and healthy dose of business acumen to launch a new brand.



Phil Duffy,
partner, MCR.
Contact him via:

pduffy@mcr.uk.com
T +44 (0) 1618 279003
T +44 (0) 7774 699024