



Is retail set to rally and thrive?

There are few sectors where the effects of the global economic crisis are so visible and as we all watched the astonishing demise of some long cherished retail brands in the UK last year, it was difficult to see how the sector might weather the storm.

As if the economic shockwaves were not damaging enough, trading suffered badly during January's heavy snowfalls as retailers strived to capitalise on the post Christmas sales season. Shoppers stayed at home and the effect on cashflow was devastating. From established, national retail names to small independent specialists, for a wide range of retailers it could no longer be business as usual.

Many businesses struggled to secure appropriate funding which in turn affected their ability to acquire stock to generate profitable sales revenue. Savage cost cutting measures introduced to secure long term business health, sadly, have been too little or too late to make any difference in some cases.

Changing shopping habits

According to recent figures published in *Retail Weekly*, share prices in the retail sector, as a whole, appear to be rising. However, with inflation low for a relatively long period, albeit it has recently risen, and with the purported increase in consumer spending, can retailers dare to feel optimistic?

Shoppers are holding their breath say the CBI, after its recent survey showed fewer retailers than expected reporting strong growth. Mindful of probable personal tax increases post the election, personal incomes will continue to be under pressure this year as consumers make careful choices about how

and where they spend their disposable income.

Retail leaders are calling for clarity from the political parties on key issues so that consumer fears can be allayed. According to a Gfk NOPs Consumer Confidence Index in April, consumer confidence had fallen after the previous two month's increase due to election uncertainty.

Retailers have also had to deal with increases in employers NI and the reversion of the VAT rate to 17.5%, costs which are being passed on to consumers, leading them to seek out bargain stores for essential purchases.

Rescue culture?

There has been much media coverage of rescue culture on the back of successful retail company voluntary arrangements (CVA's). The experiences of companies such as Blacks and JJB Sports as they stave off administration and exit stores through the process has prompted scrutiny of CVA's. Certainly, a number of retail CVA's have produced a positive outcome with landlords willing to work with the retailer to protect a future income stream. Re-letting empty properties in the current climate is difficult.

Another recent example is value clothing retailer, Ethel Austin. Established more than 70 years ago it grew into a nationwide network of nearly 300 stores. Their hopes to access fresh sources of working capital proved impossible and insolvency was unavoidable.

In February 2010 MCR were appointed as administrators and in April 2010 announced a sale of the company's business and assets that included 90 of its stores to Life & Style Retail Limited, a newly

incorporated company set up by Ethel Austin's former owner. This was a suitable outcome for many of the company's employees, landlords and suppliers, especially considering the tough market conditions.

A new retail landscape?

Time will tell whether the economic turmoil has created an environment for a leaner retail model to come to market and attack even more aggressively. The demise of the weaker players in any retail category creates a new competitive landscape for the remaining brands, and many additional factors are now driving change across the sector.

Could the digital era spell the end for music and gaming retailers as consumers increasingly favour the convenience of digital downloading? How will the plethora of newly launched online clothing stores targeting niche markets affect traditional brands?

Successful retailers have understood what is happening in the market and continued with their investment plans. They have been able to adapt to changes in consumer spending habits and have managed change and innovation effectively.

At MCR we help clients manage and implement timely change in a wide range of business scenarios. Please get in touch to find out how we can assist your clients.



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