

Deputy S G Luce
Chairman, Economic Affairs Scrutiny Panel

Thursday 9th January 2014

Dear Deputy S G Luce,

Economic Affairs Scrutiny Panel - Retail Policy Review

Further to your initial letter of the 28th November 2013, I would firstly like to thank you for allowing the Society a short delay in compiling its response.

As I am sure you will appreciate, many thousands of pages have been written on the evolving nature of retail in recent years and rather than construct a response based on Market commentary, the Society wishes to draw attention to broader themes to assist Scrutiny in its deliberations of this key review. We have also taken the liberty of making some suggestions as to which measures we expect to see included in the final strategy.

Background

One has to start with the background. Retail in Jersey has received a lot of attention during recent years. This attention was initially invited through the takeover of the Safeway Supermarkets on the eve of the competition law coming into force. This provoked much focus being applied on the competitive nature of the Islands supermarket operators. Then we had the much maligned Experian Report which was discredited by Lee Sparks, Professor for Retail at the Institute of Retail at Stirling University. Two years later saw the publication of the more credible DTZ Report, used by Planning to inform the current Island Plan. Then in 2010, the current retail framework was issued. This was a document which was poorly received by industry as it seemed to ignore the emergence of internet, the importance of high street and the critical nature of community access preferring only to focus on perceived but wholly unfounded concerns about the food retail market.

We therefore warmly welcome this latest focus and in fact have been one of the major protagonists suggesting this latest review should be conducted.

The Retail Environment

Retail has been in many respects at the centre of a 'perfect storm' since 2008. In Jersey we have seen population decrease slightly, below RPI wage awards; and increased tax burdens on the consumer. These have compounded to hit disposable income, the lifeblood of retail, hard. Simultaneously we have seen the internet surge in popularity as people seek convenience and choice and we have seen GST introduced at 3% and shortly afterwards raised to 5%. When you add unemployment and the inexorable rise in costs to this potent mix it is difficult to see how the trading environment could have been any worse.

Despite this perfect storm it has to be said that retail in Jersey appears, at least on the surface, to have weathered the conditions well. However, we would suggest that the full impact of the changing marketplace has yet to be seen.

Specific Challenges

Retailing is facing significant challenges. The general economic conditions aside, despite some anecdotal evidence that landlords are being more realistic with rents this remains a key challenge for the future of our high street. The reality is that rents will need to reduce in future and if this is not done at an appropriate pace then there will be a period of time where there are potentially significant closures on and around the high street and possibly more worrying, in our district centres.

Unemployment is both a challenge and an opportunity at the moment. It brings with it lower disposable spend but a potential higher quality of candidate to retail recruiters than had previously been available in times of fuller employment. That said, finding the time to train retail assistants is very difficult for many businesses with manpower now cut to the bone.

The relentless march of the internet continues unabated. This leads to a situation where local retailers have to consider a duplication of cost if they wish to compete online as well as retaining the physical store presence. When we consider the local market size and cost of maintaining that physical presence against the cost of a large online business can achieve by having comparatively cheap warehouse premises, better transport links than are available in the Islands and economies of scale through being able to serve a far wider market; then one can easily see why online is in a position to win on price. This is a problem with no easy solution.

The other significant challenge is GST. With the de minimus level on individual imports set as it is, local retailers are being forced to compete on an uneven playing field. Our 'anti Jersey' States policy is creating an advantageous situation for companies outside of the UK to transact with our local population. This simply cannot be right at any level. The solution, although understandably unpalatable from a political perspective is to level that playing field, with all

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imports, regardless of retail value, being subjected to the same GST that local retailers are compelled to pay. At this point it is worth highlighting the significant loss of revenue to the States purse by ignoring internet/catalogue imports. With the popularity of this method of buying set to rise further in future, there is a risk that further erosion of tax receipts will put further upward pressure on GST rates, potentially amplifying the inherent unfairness of the existing policy.

The majority of retailers are small businesses, often owner run and often with a workforce of below five. Despite several so called red tape reviews there are no apparent signs that the burden of governmental bureaucracy is on the verge of easing. The complexities of ITIS, GST, Rates, Social Security and other administrative processes compound to suffocate small businesses struggling to survive.

Finally, the costs, complexities, uncertainties and timescales involved in a planning system that is clearly struggling, act as a significant barrier to businesses attempting to innovate and grow.

So what should be done about this?

Extend Opening Hours?

The issue of Sunday trading is a hot topic. There are arguments on both sides of the coin. On the one hand retailers are justified in having doubts that the additional costs of trading on a Sunday, particularly when employees will be on enhanced rates (especially in local businesses who are unlikely to have 5/7 employment contracts), may not be justified by increased revenue bearing in mind the catchment area is limited by geography. On the other side of the debate are those that would say that Sunday trading would prevent some of the current leakage to online. We are not convinced that such a move would lead to any abatement of this leakage since those who shop online already have the opportunity to use local outlets but choose not to do so...

This is essentially a two pronged debate though. Food and non-food potentially deserve different solutions. Trading the large food stores on a Sunday would obviously not mean that people eat more, but it would mean that significant trade would be diverted from those smaller stores in our communities who rely on the competitive advantage they have on a Sunday to justify or to continue in business. In non food the arguments are different. Many people continue to view an afternoon out shopping as a pastime and there is no doubt that if St. Helier were open on a Sunday it would be enthusiastically used by locals and visitors alike, but in view of the catchment area the market will not be appreciably bigger but it would significantly increase costs.

Lessons learned from the successes in physical retailing

If you are looking for evidence of success in the physical retail model one would immediately be drawn to shopping centres as an example of retail bucking its own trend. Places like the Metro Centre in Gateshead, Bluewater and their counterparts continue to generate significant footfall and are quite understandably amongst the most desirable retail locations nationally. One has to ask oneself why this is. Free parking being non negotiable is one reason, common opening hours, including evenings, is another. Joint marketing, a mix of uses, a clean and secure environment and an overall model that knows how to deal with empty shops must be recognised as strong foundations for the growth of shopping centre popularity over the last twenty years. They also benefit from good road communications, creating a catchment area that is many times the size of Jersey with a population measured in millions not tens of thousands..

While there is little that Jersey's retail offer can do to replicate the elements that lead to the success of shopping centres, there are perhaps lessons to be learned. Shopping centres contain a mixture of uses with food and beverage and leisure supporting retail later in the day and moving in to a night-time economy. Shopping centres are very carefully planned and executed. We therefore believe that in order for Jersey's broader retail offer to compete and prosper in the medium to longer term, Planning will have a key role to play.

We feel there needs to be a degree of acceptance that retail cannot simply be 'fixed'. Tertiary locations such as New Street, the furthest extremities of Colomberie and Bath Street are destined to struggle as retail consolidates into our key centres at King Street and Queen Street in town and at key district centres for example at Les Quennevais or at local centres such as St. John's Parade. The challenge is to recognise this as inevitable and for government to put in place policies that predict and promote the changes required. As an example it would be opportune to introduce a presumption in favour of change of use out of retail at these tertiary locations. Planning would also need to be sympathetic to complementary uses to support retail in primary and secondary locations. If done carefully, this would support other states policies of the bringing the population back into St. Helier through the provision of more residential, it may also provide opportunities to diversify our economy introducing uses such as self catering into St. Helier instead of deserted secondary offices continuing to lie empty.

The landlord has a role to play too, empty shops blight retail centres. In predicting the inevitability of empty shops at various stages of the evolution of retail then some sort of coordinated attempt to introduce pop-up offers or artists' use of those vacant premises should be encouraged. There are some current success stories with this type of initiative.

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Tackling the 'thorny issue' of GST

With incoming trade using Island resources the situation where local retailers are forced to continue to compete on this lop-sided playing field as far as GST is concerned must stop. The collection mechanism of GST on imports is efficient and cost effective. We would contend strongly that GST should be collected from all imports potentially encouraging some consumers to consider using local alternatives rather than suffer any perceived inconvenience of going through this prohibitive process. We make this point not as a business that is suffering unduly from the existing situation. Our product mix protects us. We simply make the point in the interests of integrity and fairness.

Protecting Communities at all costs

Finally it is vital that community access is considered in any evolution of a retail strategy. The elderly, infirm, and those simply without transport rely on the provision of community retail whether that's a pharmacy, a food store or a post office. For some, these stores are a lifeline. The loss of these centres is unthinkable and their well being must be factored into any policy decisions that emerge as a result of this review.

In summary then, retail faces many challenges, both nationally and locally. Whilst we appear to have weathered the economic storm well here in the Island, the relentless march of the internet with the breadth of choice and convenience of operating hours is set to continue unabated. This will transform the retail offer we know today. We believe that the effects of this change can be accurately predicted, and that policies can be put in place now to mitigate the worst of the impact.

We thank you again for permitting a small extension on this submission and wish Scrutiny well in its deliberations.

Yours sincerely,

Colin Macleod
Chief Executive Officer
Channel Islands Co-operative Society

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