



SURVIVING A SLOWDOWN

With the retail economy struggling in the face of a downturn, Dave Howell investigates how your business can survive in a market dominated by the credit crunch

Open any newspaper, tune to any news channel or visit the web and you will be faced with stories of a global economy that is slowing down. The CBI has described 2008 as a 'difficult year' for the UK economy, but it's important to look past the current events and see the wider picture. The CBI's director general, Richard Lambert, says the UK's economy is not heading into freefall, but would have a "soft landing" as the economy slows.

Lambert says that: "We may be entering a new phase" in the structure of the global economy, with a "bumpier ride in the years to come" a real possibility. He reflects that "the global economic balance of power is shifting east" to China and India, who have driven growth as the US economy has slowed, and that alongside this: "We appear to have moved into an era of high energy prices and one where investment decisions will be dictated in part by the price of carbon."

The British Retail Consortium's new director general, Stephen Robertson, commented: "For the fifteenth month in a row, non-food prices have been lower than a year ago and there are no signs that this trend is going to change. Retailers are suffering the effects of some unavoidable rising costs, but are doing everything

they can to shield their customers from these rises. As people's budgets tighten this year, the key word in retail is value and customers will continue to benefit from the intense price competition between retailers."

Retail worries

The high street is certainly becoming a battleground. The retail sales figures for the last few months don't make for positive reading, with a steady cooling off as consumers tighten their belts. Ian McCafferty, the CBI's chief economic adviser, says: "The high street has been slowing gradually since last April and sales earlier this month were very subdued, while

"We appear to have moved into an era of high energy prices and one where investment decisions will be dictated in part by the price of carbon"

prices have risen strongly. Reflecting the increasingly tough conditions faced by the sector, business sentiment and investment plans have both taken a hit."

However, the market is reacting to keep retail spending as buoyant as possible. Mike Watkins, senior manager, retailer services at market research company Nielsen, comments:

"The increase in food prices in February will come as a stark reminder of the pressure many households are facing from increasing household bills, despite the best endeavours of retailers to absorb as much of the increases as possible. Non-food continues to be discounted, thus continuing to keep the overall Shop Price Index close to its December 2005 level."

For specialist retailers, looking closely at their core business is the key to weathering the economic storm. Clive Lewis, head of medium sector issues at the Institute of Chartered Accountants in England & Wales, says: "Smaller enterprises have a number of things going for them when demand is generally depressed.

Firstly, they are closer to the customer. This comes from having spent many long hours in their shop interacting with customers.

"Secondly, they know their business inside out. They know the key statistics - the break-even point, the fixed overheads, the

headroom with the overdraft, stock levels, etc. Thirdly, many have weathered previous soft spots in demand and know how bad it can get and what worked in previous difficult trading conditions. Fourthly, they know how to shop around to get the best bargains."

Says Stephen Milne, director of the Aylesbury Vale Enterprise Hub: "Small

enterprises must play to their strengths. There are still people out there willing to spend and small retailers have different products to larger, more generic retailers. The important point is to make sure they are reaching the right people. This may be harder work in an economic slowdown, but it is the way to keep up sales and minimise the impact the economic climate will have on their business."

Winning post

For the sports retailer that has a specialist market to sell to, no one is denying that 2008 will not see the steady growth that many businesses have enjoyed over the last few years. Says Clive Lewis: "The Olympics will take place in 2008 and there will be greater media and promotional coverage. This might mitigate some of the adverse effects of the economic downturn and make consumers more prepared to spend on sporting activities. There is always the hope of a UK winner in Wimbledon or a significant UK football success. But experience suggests that it is better not to plan on the UK excelling at these events."

Stephen Milne comments: "Naturally, people will spend less overall this year, and when this is the case there will be some who lose out. Sports companies will doubtlessly have to work harder, but there is no reason why they cannot keep sales at a reasonable level if they plan strategically. Many so-called luxury items will continue to fare well; sports clothing and equipment will remain important to many. Where people trade down to a lower quality brand, other people will trade down from a higher quality one, so products, which are not at the very top end and are viewed as good value for money, will still find a market."

"Furthermore, many sports items are not seen as luxuries, but commodities by many consumers, in particular schoolchildren to

whom having the latest brand is a must. An economic slowdown will not affect the spending habits of such people. If they rely on their parents to buy their clothing, sports retailers may find that their customers buy cheaper brands. But this will only happen once and they will soon return when their children refuse to wear the cheaper brand."

"Today's sportswear market is a diverse and fragmented one," says Professor Simon Chadwick, Centre for the International Business of Sport at Coventry University Business School. "Current pressures are, therefore, unlikely to have the same impact across all segments and will affect each of these segments in different ways."

"Most likely to suffer will be luxury items, eg training shoes costing £100-plus, where demand is likely to be squeezed by credit and lending restrictions. For products that one would normally find in high street chain stores that heavily discount their products, demand should be more resilient - consumers who typically buy from such outlets are more likely to see sportswear as necessity purchases rather than luxuries."

"As for the smaller outlets, again the news is likely to be mixed. Many of the smaller stores, the ones that have already gone head to head with the discounting high street multiples, will really feel their margins being squeezed. However, those serving a niche are likely to be able to stand their ground."

Planning success

Whether the UK is heading for recession is a hot topic. For all business owners, now is the time to plan carefully to ensure contingencies are in place to survive any economic downshift that may occur. The Federation of Small Business's Simon Briault says: "If owner/managers of small businesses are panicking, they have no need to at present. There is no real evidence of

widespread hardship in the small business community and many small business owners are still reporting reasonable trading conditions. If things deteriorate, small businesses have much more agility and adaptability to cope with new conditions."

Clive Lewis offers this advice: "There are few business experiences more difficult than a significant general slowdown. Loss of confidence in future trading is insidious. But it is advisable to make decisions based on facts. If you lack experience of trading in a slowdown, is there someone you trust who you can talk to about the business? Being a business owner can be very lonely and having a trusted adviser, someone with a wide range of experience - often your accountant - whom you can chew things over with helps with the isolation. It also helps put things into perspective, as well as finding out how other businesses are managing."

What is clear is that for the small business owner the slowdown isn't the end of their company. The sports retail sector will certainly go through a tough period, but the smaller business is perfectly positioned to attract customers. For many small businesses, their ability to modify their stores quickly in response to customer demand will ensure their survival through this turbulent year.

RECESSION BUSTER

■ CASH IS KING

The cash flow through your business is still of paramount importance. Keep a close eye on your expenditure to ensure your business stays solvent.

■ CUT COSTS

In today's economic climate renegotiating supplier contracts could pay huge dividends. Any reduction in your costs is money in your pocket.

■ CUSTOMER SERVICE

In a downturn every customer is important to your business. Making an extra effort in every aspect of your customer support will reinforce their loyalty and improve your profit.

■ DISCOUNT DILEMMA

Be careful if you intend to make large discounts in your store. It's important to know the precise gross margin of your products so you know how far you can discount and still make a profit.

■ DELAY BORROWING

You may have plans to expand your business or make a substantial investment in plant and machinery. Can you delay this spending?

■ CREDIT CLAMP

Look closely at the outstanding credit you have extended to suppliers and customers. Now is the time to chase the money you're owed.

