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## Bad news for your bills

CONSUMERS felt more gloomy last month than they have for four years.

Nationwide Building Society's monthly consumer confidence index dropped by 10 per cent in just one month.

This is the lowest figure recorded since May 2004 and is a fifth lower than the same period last year.

Growth in consumer spending is expected to continue to slide this year, from a modest plus three per cent in 2007, to just plus one per cent in 2008 - thanks largely to growth in food spending.

Research shows that high street shoppers are increasingly resorting to credit cards and overdrafts to fund purchases. Unsecured borrowing is growing at its fastest since 2003.

Figures from the British Retail Consortium show that despite billions of pounds added to credit card bills, UK retail sales fell by 1.6 per cent in March compared with the previous month. However, shops in some of the big cities - including Manchester - have continued to perform well.

# Getting to grips with the cre

■ Can retailers survive the big squeeze?

■ Signs of recovery on the horizon

DAVID THAME

**M**ANCHESTER'S retailers can survive the credit crunch.

So say local experts amidst growing concerns over the impact of reduced consumer borrowing on high street sales.

Last week bell-weather fashion chain Next became the latest big British retailer to feel the effects of the credit squeeze.

Next reported like for like sales for the first three months of 2008 down by nine per cent compared with the same period last year.

However, there are already small signs of recovery. Shares in Next, for instance, rose after the poor trading figures were announced. Analysts said this re-

flected improved hopes for the spring and summer.

Manchester's Arndale centre is bucking national trends. Both footfall and sales grew during the first quarter of 2008.

Figures just released from the centre show an 11.2 per cent increase in visitors for the first three months of the year, the equivalent of an extra one million people compared to the same period in 2007 - figures which show no sign of being affected by the credit crunch.

The centre saw an increase in footfall of 15.7 per cent in the last week of April.

Increased customers mean increased sales, which have grown by 9.8 per cent compared with the first three months of 2007.

The arrival of new names including Puma, whose new concept store is now open, and flagship stores for All Saints and

hip new label, Superdry, have also helped keep customer interest up.

Glen Barkworth, general manager at the Arndale, said: "Whilst we are very aware of certain aspects of life where the ramifications have been felt, customer spend at Manchester Arndale has not been affected, in fact, we are finding the opposite to be true, with customer spend up year on year when compared to 2007.

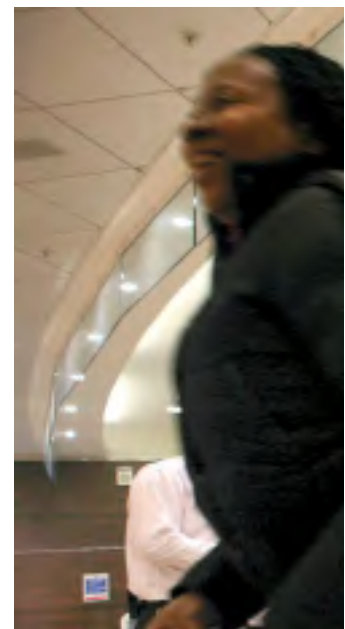
"These figures are testament to the popularity of the centre, which has developed through the hard work and dedication of our retailers, our staff and the innovative ways in which we approach our business. We are continually striving to make our offer the premium shopping experience not just in the north west, but in the UK."

Experts say there is a growing

gap between downbeat retailers and up-beat market analysis based on expanding sales in food, electronics and sports.

Michael Hartig, corporate director at Barclays Commercial Bank in the north west said: "The latest statistics show a 0.4 per cent fall in retail sales for March, with the impact of bad weather and an early Easter resulting in a decrease from February's buoyant performance. However, underlying growth remains surprisingly robust thanks largely to the food sector and supermarket retailers, with this month's figures contributing to the strongest first quarter performance since 2004.

"This positive message conflicts with recent trade surveys and conversations with high street retailers which have depicted a more downbeat view. The underlying growth can be explained in part by the aggressive cost cutting by non-food retailers, which continues to support volume but is drastically lowering their margins. The figures also show huge growth for mobile phone retailers, games



TOP OF THE SHOPS Although year, customer spend at the

stores and sports shops whose sales rose by 11.3 per cent, the highest growth since 2002, driven by young consumers.

"In contrast, high street fash-

ADVERTISING FEATURE

## Rapid response can alleviate total recall

MARTIN DOUGALL

**F**OOD suppliers and retailers across the UK took a knock recently when news broke that various salmon products were being withdrawn from the shelves.

Salmon from a supplier in Scotland was found to be the source of the scare, which reportedly involved a batch of fish becoming contaminated with diesel from one of the company's boats.

The result was the removal of a host of products from fish counters and chiller cabinets in at least 10 major grocery chains across the UK, even though the Food Standards Agency (FSA) said that it was 'very unlikely' that the contamination would cause a risk to health.

This is just one example of what can happen when a fault during the manufacturing process leads to the risk of products becoming contaminated or faulty. In recent years, salmon, soft drinks, chocolate bars, vitamins and children's toys have all been subject to widespread product recalls or withdrawals. In these circumstances, production must cease, the problem must be rectified and the product must be recalled to protect consumers.

The EU's General Product

Safety Directive came into force in October 2005, placing greater emphasis on companies to be open about the safety of their products. A firm should now be well aware that if one of its products is defective or dangerous, it is required to notify the relevant authorities within seven days. Failure to comply puts directors at risk of prosecution, including a possible fine and/or imprisonment.

Unsurprisingly, this directive has led to a significant increase in the number of product recalls, almost trebling from 43 in 2005 to over 120 in 2006.

Financially, product recalls are a problem that business simply cannot afford to ignore - Cadbury estimated the recall of some of its chocolate bars in 2006 cost the company £20m.

Firstly, it is vital that suppliers give early consideration to the total cost of a recall, particularly if covered by an insurance policy. Costs may include: lost sales from the product being unavailable and the effect of negative publicity; stock losses from destroyed and/or recalled stock; costs associated with transportation, storage, disposal, repair and replacement; allowable marketing, advertising and promotions costs; and independent accounting fees for preparing the claim.



APPROPRIATE ACTION Martin Dougall, director, KPMG Forensic in Manchester and right Cadbury recalled at a cost of £20m in 2006

Meanwhile, a retailer's first response should always be the quick removal of all affected products from its shelves.

It is important to be able to identify exactly where all affected products are located and then contact the supplier to ensure an orderly removal from stores, the cessation of all incoming deliveries and agreement on reimbursement for costs incurred.

The experience of Cadbury and many others has meant that both suppliers and retailers have improved their processes



in dealing swiftly with similar situations.

The golden rule is communication - responding rapidly to customer concerns, communicating effectively with suppliers, and issuing clear and concise instructions to all stores in a chain or group.

Brand reputation is very important, particularly in the case of a health scare where the long term implications for brands are potentially very serious. One of our clients affected by a recall has learned the lessons of experience and recognised the

vital importance of protecting their brand by developing and testing both a Product Recall Contingency Plan and a Brand Reputation Manual.

Retailers have also been questioned about the quality of checks on their supply chain in order to find out where individual components or ingredients are sourced.

As major brands come under greater pressure when questioned on ethical issues, retailers and manufacturers are now - fortunately - taking the vetting of suppliers and business

partners much more seriously.

So, as the number of product recalls looks set to increase, it is important that all businesses in the retail sector develop a contingency plan for effectively handling the disruption, communicating to customers and suppliers and protecting the value of their brands.

In the modern world, product recalls are an inevitable yet positive response to the dangers in any manufacturing process but, with effective planning, are capable of being handled with limited disruption.

# credit crunch...



Next has reported a downturn in sales compared to last year. The Arndale Centre in Manchester has been unaffected.

ion continues to fare the worst as the only market to show negative growth this month; in fact, these figures show the largest decrease in 10 years.

"It seems that whilst adults are focusing on paying for essentials such as food and their mortgages, younger consumers still have disposable income to spend

on the latest gadgets and new kit in the run up to the summer season; parents too, are sparing on their own luxuries in favour of their children."

## Out of town retail parks are still in fashion with Manchester's shoppers

A BIG shake up at Marks and Spencers and Curry's means more empty retail warehouses, but out of town is not out of fashion with Manchester shoppers.

So say property experts, who claim that despite changes by the big out of town retailers, customers feel like driving to retail parks on the city fringes.

Decisions by major names including Focus, MFI and Matalan, to cut the number of stores or to reduce the size of existing stores has led to more empty units at out of town retail parks in Greater Manchester.

Today around eight per cent of all retail park floor space in the UK is unoccupied according to research by Savills and Trevor Wood Associates. However, unwanted space is quickly re-let, say specialists who state that fashion and leisure operators are moving in.

Martin Supple, head of out of town retail at Savills, said: "New Look, Asda Living, Tesco Homeplus, Laura Ashley, Dreams and Maplin have all been particularly aggressive in their UK expansion. We expect the main retailers acquiring



EAR TO STAY Carphone Warehouse has signed one of the latest deals at Middlebrook Retail Park, Bolton

space over the next five years to be fashion, clothing, homewares and food stores."

Coffee bar chains are also moving into out of town retail parks with Starbucks and Costa Coffee leading the way.

The latest deals at Orbit Development's Middlebrook Retail Park, Bolton, fit the trend with lettings to Costa Coffee, Phones4U and Carphone Warehouse.

A new 5,050 sq ft building will house all three occupiers in a site at the park's entrance.

Mark Hanna, senior retail surveyor at Orbit said: "Middlebrook's ever increasing customer foot fall meant new space was required and we are experiencing strong demand from retailers given the current market, signing three significant deals in the first quarter of 2008, reflecting the excellent reputation the park has built up over the past 10 years."

Middlebrook totals 639,000 sq ft let to tenants including Marks and Spencers, Boots, Next and HMV.

## Are supermarkets sweeping into pole position in Greater Manchester?

THE tills are continuing to ring at Greater Manchester's supermarkets prompting a massive expansion programme by the major names.

However, smaller independent food retailers say customers are turning their backs on the big brands.

Sainsbury's are among the busiest in the region. They are signed for new stores in Stockport and Urmston, and are planning further expansion.

Earlier this year Stockport Council chose J Sainsbury to develop the seven-acre Knightsbridge site at Stockport's Great Portwood Street.

Sainsbury's has also bought a new store at Ask Developments' Urmston Shopping Centre paying £23.5m.

Supermarkets have shown growing interest in Greater Manchester, with

Waitrose about to make their debut in the city and the other major names expanding.

So far, food stores have escaped much of the economic gloom now clouding prospects for retailing.

Sales figures have been growing fast at Sainsbury's and Tesco, although experts warn that growing sales do not necessarily mean growing profits, because supermarkets have cut profit margins in an effort to survive the credit crunch.

In the meantime the Competition Commission and the Office for Fair Trading have begun a number of enquiries into the way supermarkets trade.

However, independent food retailers say the supermarket's days could be numbered.

Paul Sheerin, owner of Heroes Fine Foods, in Rochdale said: "Every

month another supermarket scam hits the headlines with the latest one being price fixing.

"Before this, they have been caught discounting wine only to find out the price is the 'real' price with the discount being a marketing illusion. Supermarkets have also highlighted that a lot of their produce is from the UK but this could simply mean packaged in the UK and made overseas. And so on and so on. Is this really good customer service?"

Mr Sheerin says that supermarkets must still convince customers that they are value-for-money places to shop.

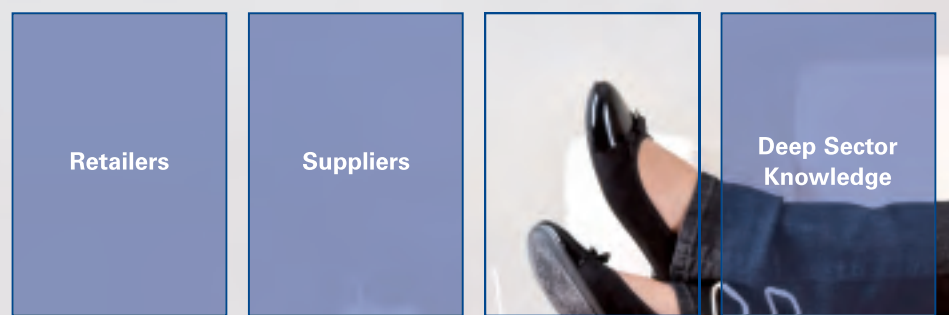
"Consumers continue to shop at the supermarket as they believe they are getting good value. Good value at the cost of the local producer, local community, animal welfare, and great quality. But until the consumer wakes up to the fact that they are being conned, the supermarket will continue to be the winner," he said.

"We have seen promising glimpses at our store that the consumer appreciates quality food and great customer service but it's a hard slog to educate the public up against 'Goliath-sized' marketing budgets."



HAPPY DAYS Sainsbury's is amongst the busiest food retailer in the region

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To discuss how KPMG can help your business to achieve its objectives,

contact **Christine Hewson**, who leads KPMG's Retail group in the North West, on 0161 246 4132 or email [christine.hewson@kpmg.co.uk](mailto:christine.hewson@kpmg.co.uk)

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# Revamping city's retail reputation

■ Car parking vital to the success of retailers

■ Plans ahead for increased development

DAVID THAME

CITY council bosses need to resolve Manchester's car parking problem if the city's reputation as a shopping capital is not to be lost.

That is the warning from growing retailers in the city who have stated that car parking needs to be part of the new strategy for the city centre's shopping district now being drawn up by Manchester City council.

Last month the council, together with the city centre management company, received a report from surveyors Drivers Jonas and Lunson Mitchenell on ways to revamp the city's retail reputation.

The report was commis-

sioned after concerns that Manchester's retail scene had reached a 'plateau' after 10 years of growth. It is also expected to face a greater challenge from Liverpool once the troubled Liverpool One retail scheme is completed later this year.

The task force has recommended incorporating the growing retail area at the Spinningfields development into the existing shopping sites at Deansgate and King Street. This will require making new links.

There are also plans to put more emphasis on attracting independent retailers with the Northern Quarter identified as a potential focus for more unusual stores.

Redevelopment of the Arndale, the conversion of the Corn Exchange into the Triangle shopping centre, the creation of New Cathedral Street and Exchange Square, have improved Manchester's retail offering since 1996. But council bosses are concerned that the city should continue to improve its

appeal to shoppers.

Niche retailers, however, say that the city centre will only continue to grow if it can make car parking more easily available.

Janet Rawnsley, director at prams, nursery equipment and baby wear retailer The Baby, said: "Most important commercially is the need for a parking scheme, which allows for inexpensive short term parking and creates the sense that you can come in for an hour or two, hook up with friends, eat in the city, visit the galleries and leave without feeling like you need to remortgage at the car park exit.

"The key piece of the jigsaw is parking. It is totally critical in city centres and out of town. Easy parking is vital to the success of any retail centre. It really matters, whether we care to admit it or not. Public transport plays its part, but when you consider by 2010, 50 per cent of the British population will live alone, you begin to understand the need for safe travel, which often means at night the car is the preferred choice."



► **PROBLEM PARKING** The city will need more available parking space if its reputation as a shopping haven is to continue

Retail property experts also warn that the city must compete successfully with other local attractions as well as offering a home to specialist and niche retailers, as well as the big fashion names.

Property consultant Matt Illingworth says that King Street may need help if it is to maintain its reputation as the Bond Street of the north.

Mr Illingworth, partner with

surveyors Cushman & Wakefield, said: "Manchester has no major new shopping centre development within the city centre but there are pipeline developments in Bury, Altrincham, Ashton, Stockport, Blackburn and others which will seek to attract shoppers away from the city centre.

"There are pockets of improvements that will see new names coming to the city such

as Links of London, Molton Brown and Henry Lloyd who are reported to be opening in St Ann's Square.

"King Street needs to find a new identity as there are over 10 leases on the market. Spinningfields has attracted Armani Exchange and there is a risk that top end brand names who want to be located in high class locations will turn their backs on King Street."

ADVERTISING FEATURE

## It's a question of ethics...

Christine Hewson, head of retail at KPMG in the north west and Ben Wielgus, of KPMG Sustainability Advisory Services discuss ethical retailing – is it the right thing to do, or the only thing to do?

IT seems there's scarcely been a day over the past few months when we haven't opened a newspaper to read about the latest 'ethical' initiative from a retailer.

From Marks & Spencer's 100-point Plan A - designed to reduce its environmental impact and enable it to become carbon neutral in five years - to Tesco committing itself to labelling every one of its 70,000 products with details of its carbon footprint, it's certainly evident that the industry's perception of corporate responsibility (CR) is evolving at an ever increasing pace.

But where once philanthropy was seen as acceptable, and pro-bono work was seen as best

practice, today's retailers are faced with an increasingly complex range of issues which fall under the banner of CR - from environmental impacts to employee engagement, and from supply chain considerations to community interaction.

Whilst there have been many drivers behind this step change, the main force stems from the fact that CR has also quietly been working its way up mainstream consumers' agendas over the past few years.

Think back a while; what proportion of the spending public either knew - or particularly cared - whether their asparagus was seasonal and British or flown in from warmer climes in December? A trawl around a

supermarket today reveals a very different picture, with seasonal, local and UK grown now becoming powerful messages to tempt customers and help them feel positive about where they are shopping.

Of course, 'ethical' customers aren't just one neatly identifiable group which retailers can appeal to and there's much more to it than climate change due to food miles or the carbon footprint of particular products. Ethical behaviour and attitudes have many forms and one person's ethical priority can be very low down another's list, so it's important to look at a broad range of environmental, welfare and moral issues which constitute a 'responsible business' - and which may ultimately affect how consumers choose to spend their money.

At KPMG, we see a 'responsible firm' as one which has clearly identified and articulated its key issues, to then minimise the negative impacts of its operations whilst maximising the potential to deliver benefits to the business.

But this has to be further caveated: it's all well and good being a responsible retailer if it differentiates you from the crowd, but it also has to lead to higher sales, better margins or

a greater license to operate. Many companies invest significant sums in their corporate responsibility activities but fail to identify the key issues that hold business relevance, instead focusing on CR solely as a communications or public relations tool.

So, if CR is essentially about good investment, then it surely doesn't just impact big business - even the smallest retailer has a wider footprint than just its site and customers.

While the Co-Operative Group and Innocent are two more big names that appear to have got it right in correctly identifying the issues that matter to their stakeholders, smaller local players, like Bells of Lazenby who produce organic bread in biodegradable packaging, seem to have grasped the opportunities too.

Here at KPMG, we are increasingly being asked to help clients of all sizes ensure they have an appropriate response to stakeholder requirements and questions around corporate responsibility. This not only allows them to protect against risk, but can also help to increase their bottom line and identify new areas of growth that may have been missed by narrower, more traditional ar-



► **MARKS & SPENCER'S** The 100-point Plan A is designed to reduce its environmental impact and enable the company to become carbon neutral in five years

eas of thought.

Essentially, being a responsible business is not about sacrifice; it's not about dramatic change nor about revolutionising the whole way you do business, but about taking incremental steps towards a different way of operating.

And certainly, while corporate responsibility is the only thing to do, it's got to be the right thing in terms of address-

ing your key issues whilst meeting the expectations of your customers and other stakeholders.

From a retailer's perspective, will all this really make a difference to spending habits and, ultimately, their bottom line? Perhaps not at the moment, but in the future it looks likely those retailers which are not socially responsible will be less profitable.



Christine Hewson



Ben Wielgus