Can retailers catch the Christmas spirit - Interview with Harvir Dhillon, Economist BCR

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Economist Harvir Dhillon, author of the British Retail Consortium's (BRC) data and insight publications, visited the island for a Jersey Business Retail event where he spoke to an audience of Jersey's leading retailers.

His visit comes as more UK retailers are being forced into liquidation ahead of the most lucrative shopping season of the year. He had some dire warnings for local retailers, but said the Island is in a better position than much of the UK and urged them to embrace data, digital, and the customer experience.

***Question**: We've recently seen the demise of furniture retailer, Made.com and the CEO was quoted as saying that the business conditions which had made them successful have now 'vanished'. Are we going to see yet more losses from our high streets?*
Harvir Dhillon: It's highly likely that many businesses will be under severe pressure. Insolvencies rose to their highest levels since 2012 and the expectation is that retail insolvencies will increase throughout 2023. The economic environment, sustained pressure on margins through not just input cost but also consumers with less disposable income, means many retail businesses that had flourished before may find it increasingly difficult into next year.

Our anticipation is that the economy will be contracting over 2023 up until the end of the year, so pressure is going to linger on margins over that period. But there's a lot of risk to that outlook. While energy prices might be at a level that we're not comfortable with, we've still no indication how price rises will impact the consumer, so there are quite a few risks to the outlook, which is skewed to the downside.

Question: *So, will we see a totally changed retail high street in 2023?*
Harvir Dhillon: The BRC thinking is generally a sober realism as to the economic downsides and how long they're going to persist. But there is some optimism there– underneath all the economic weakness there is an opportunity that retailers can take in what is a fairly difficult trading environment in every aspect of the economy.

There's likely to be a change in step with the digitalisation process, more of an emphasis on making the retail experience experiential. Ultimately, it's likely that the high street will be looking different, and I wager that it's going to be more of an experiential feel to it to give consumers a purpose for going.

Question: *What advice do you have for Jersey's retailers?*
Harvir Dhillon: Consumer wallets are under considerable pressure and that's not just energy but food price inflation and inflation that's broadening and entering various different aspects of the economy, whether that's housing costs or rent costs. So how do retailers give customers the best experience and, on the flip side, further up the chain manage their own input costs? They should monitor how confident and optimistic the consumer is feeling and also have an awareness of the global price pressures. Particularly since the Ukraine/Russian conflict, one thing that's been very obvious is the gas, oil and food price rises. It's actually only now that we've seen the pressures which

took place earlier in the year, filtering through into final products. If retailers want to see where their pricing will go, it's advisable to keep an eye on commodity markets to see how that situation will evolve over the next year.

There's definitely going to be winners and losers, but as history has shown us, there can also be sources of opportunity when the economy is not doing great. Especially where digitalisation is playing an increasing role. So, it's likely those retailers with a digital arm will be able to absorb any economic shock better.

If we look before the pandemic, online sales as a proportion of all retail sales, was one in five. After the pandemic, that's now one in four. So, we have a permanent rise in more online sales and that is set to rise as people get more comfortable online.

***Question**: You mention digital, but how can a small independent retailer in Jersey hope to compete with the scale of Amazon?*
Harvir Dhillon: It's very difficult with such a massive corporation that is able to utilise economies of scale to its advantage. However, smaller retailers can take some comfort in the fact they may have some unique offering, something that isn't offered elsewhere, so demonstrating why a consumer shouldn't opt for Amazon in favour of your own business.

Question: *Another big issue facing us all at the moment is the environment. If people's budgets are tight, will sustainability still be important to them?*
Harvir Dhillon: Certain consumers will care about sustainability, so there's a definite opportunity for businesses to advertise their green credentials. However, there will be a large proportion of consumers in favour of sustainability, but cost will take priority as ultimately that's all they can afford. In terms of asserting green credentials, there is definitely a value in that, and many consumers are very receptive to that.

***Question**: As we head towards what should be the bumper time of year for retailers, what are they saying to you?*
Harvir Dhillon: They're having difficulty in hiring, and massive pressures on the input side. Supply disruption has been less of a feature. Additionally, they're concerned about how to deal with a weaker consumer and about adapting to that.

Question: *Is Christmas in Jersey going to be a muted event for retailers?*
Harvir: Many consumers are going to opt for a more budget Christmas. But you

have to think about different consumers. Certain affluent households will have plenty of disposable income and there is a real opportunity there; but there are going to be a lot of households which are going to be squeezed and there's likely to be a lot more thought and care taken when making those buying decisions.

I think Jersey benefits from the fact its medium household income is considerably higher than the mainland. There are many affluent households here who will likely have some buffer and be better able to weather a cost-of-living storm. Also, trading hours in Jersey do shift and there is a feel about the festive season here. Lights go up and you notice that things are different. So that kind of experiential draw will absolutely help the footfall.

If you are a retail business owner or senior manager trading in Jersey you can sign up to the Jersey Business Retail mailer here to receive retail relevant, information, details of the retail community quarterly meetings and subsidised training.