

Brighton & Hove Business Forum Ltd

Evidence to the Support for the Retail Sector Scrutiny Panel from Tony Menagh, Chief Executive of the Business Forum

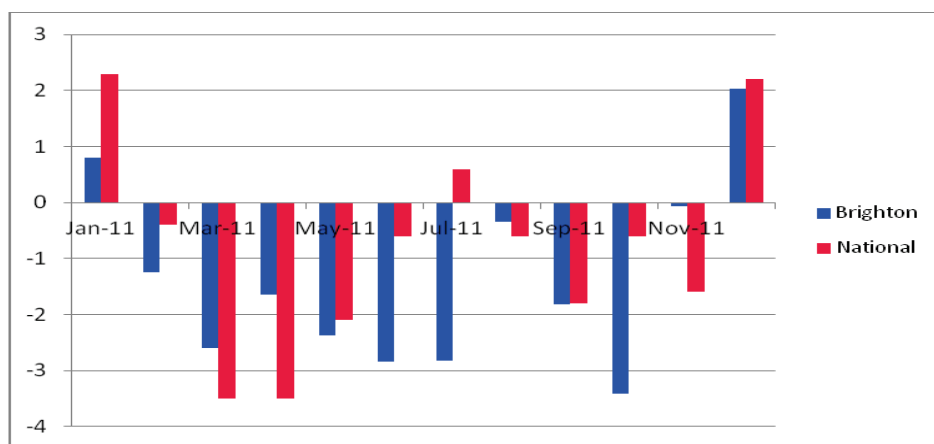
Retail in Brighton & Hove

February 2012

1. The Business Forum is the city centre management initiative for Brighton. It was incorporated in 1998. It successfully established the first Business Improvement District [BID]¹ in 2006 and took it to a successful renewal ballot in 2011.
2. The author - Tony Mernagh - is the Chief Executive of the Business Forum; a position he has held since 1999. Prior to this he was a retailer between 1985 and 1999 with five shops and he was the Chair of the North Laine Traders Association [a voluntary position] from 1989 to 1998.

The local picture against the national context

3. Compared to the national picture on the UK high street, Brighton & Hove is in some ways a star performer. Its current vacancy rate of just 6% [Brighton²] and 3.9% [Hove³] compares favourably with the national average of 14.4%.⁴
4. Footfall in city centre has declined over the past two years but now shows signs of stabilising at about 8% below its 2009 average. In common with the rest of the UK retail turnover in Brighton has also declined as households and individuals pay down debt and high inflation and low wage growth depletes disposable income.



Percentage change in Brighton's retail turnover (2011) [month-on-month/like-for-like sales]

5. Locally, only two months in 2011 [January and December] delivered retail sales in excess of the national benchmark which in turn showed a decline from the previous year in 9 out of 12 months.

¹ a defined geographical area within which businesses vote in a referendum to pay an additional levy on top of their business rates to fund specific improvements within the district's boundaries

² January 2012

³ August 2011

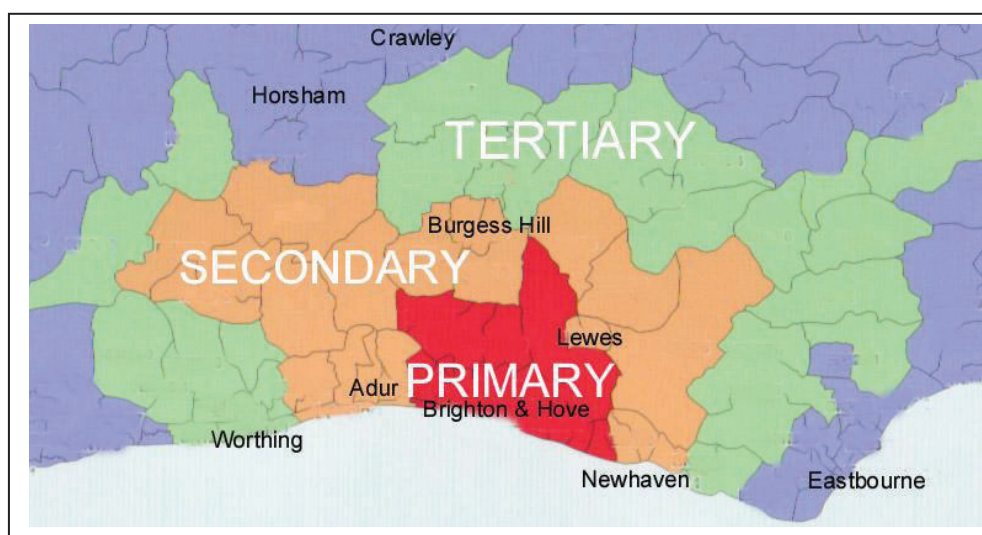
⁴ January 2012

General challenges to UK retail

6. The UK retail market is entering a period of fundamental change in response to the end of the consumer-fuelled economic boom of the last decade. In the ten years up to 2007, households extracted £315 billion in cash from the equity in their houses [mortgage equity withdrawal] to fund consumption. This sum represents 70% of the total increase in UK GDP over that period. It represents one of the greatest debt fuelled consumer booms in UK history. Since then, £104 billion has been repaid by households and individuals in an effort to reduce this debt burden but it may take “five to seven years before personal debt is under control thus acting as a brake on consumption”.⁵
7. Of the £302bn spent at the shops in 2010, more than half [£163bn] is classed by analysts as ‘indulgence’ spending and is therefore vulnerable in a downturn. Indulgence spending is a significant market for Brighton & Hove; indeed some would argue it is *the* market for the city.
8. Recession and the ensuing austerity promises to draw a brutal dividing line down the high street, with the weak on one side and the strong on the other. Well-capitalised retailers with strong brands are expected to fare better during the tough times ahead as weaker competitors fall by the wayside. Small independent retailers tend not to be well-capitalised and, although they have loyal local clientele, they tend not have strong brands.
9. Parity in IT between consumers and suppliers means that consumers increasingly have equal or more knowledge about products, pricing, features, and product performance than sales staff employed by retailers. To address these issues retailers must invest more in staff training and staff retention but smaller players tend to be sparing with both.

Issues specific to Brighton & Hove

10. Brighton & Hove has a limited 180° catchment area. To supply sufficient consumers to service our retailers, we must attract them from greater distances than competing towns with a 360° catchment. But weekend intra-city transport links are often disrupted and the absence of a park &



Brighton & Hove retail catchment areas

[source: Standard Life]

⁵ Nick Parsons; National Australia Bank Group. February 2012.

ride facility deters some shoppers. Parking provision and parking rates will also be a key element for some consumers when planning their shopping trips and it is essential that the city is able to offer a balanced range of facilities and prices.

11. As a destination Brighton lacks large floor-plate retailers, which partly explains the negligible vacancy rate in Churchill Square: almost the only location that can offer larger units. For its size it is also oversupplied with small [generally owner managed] shops and undersupplied with department stores. Although in terms of the overall “offer” the former compensates to an extent for the latter, the presence of 1,447 shops in Brighton city centre alone [not including London Rd or St James’s Street] demands a supply of consumers far greater than comparable towns and cities with far fewer individual retail units.⁶
12. Many of the independent retail business owners have no formal training in running a business or a shop and, with the downgrading of publicly funded Business Link services, there is a distinct lack of business support aimed at retail.
13. Small retailers are reluctant to get professional representation for rent reviews and are consequently at the mercy of their landlords. Many do not understand the review process and are unaware that a proposed rent increase at review has to be supported by evidence from similar properties in the same street or immediate area. The blind acceptance of the landlord’s demand sets a precedent for future reviews often leading to a series of increases that effectively price smaller players out of the market. Because they are based on rental values this also leads to an increase in business rates.
14. Many of the independent retail businesses do not have an e-commerce web presence to complement their high street presence. Online transactions now account for 14% of all purchases and this is growing steadily year-on-year. Various Internet-enabled business models have emerged. Among those, the integration of the internet channel into traditional retail, the so-called “clicks-and-mortar” business model, is increasingly important. Online sales can play a major role in compensating for reduced footfall in city centres and there is a school of thought that suggests that the internet, combined with rapid home delivery of goods, could revolutionise bricks-and-mortar shops effectively turning them into showrooms with minimal stock holding on site.
15. There is evidence to suggest that, while the city has avoided the “Clone Town” similarity of other locations, it has lost some of the quirkiness and diversity evident in the 1990s that made it stand out. To some extent high rents and rates have discouraged small start-ups that are often the source of variety in secondary trading areas.
16. Over the past three decades the axis of retail in Brighton city centre has been moving eastwards with a consequent contraction of the Prime Pitch. The refurbishment of Churchill Square in 1998 had a deleterious effect on Western Road with many well-known fascias deserting the street to relocate into the shopping mall leaving 13% of units vacant.⁷ Although the prime pitch recovered in terms of vacancy rate the quality of the retail offer to the west of the prime pitch⁸ remains limited to this day. The planned future expansion of Churchill Square is likely to result in a further wave of relocations

⁶ Towns like Oxford, Chester, York & Guildford have an average of 580 units in the city centre.

⁷ 1999

⁸ The prime pitch ends at the junction with Crown Street

and it seems likely that the few remaining quality retailers e.g. Marks & Spencer will similarly relocate. If the expansion goes ahead, the city needs to have a plan for Western Road.

17. Meanwhile, the evolution of the Old Town has been characterised by a significant increase in the number of fashion outlets and cafes at the expense of the eclectic mix of retailers that were truly unique to Brighton. This is unfortunate not just because they dilute the offer but also because each is increasingly based on challenged business models. Women's fashion in particular involves cut-throat competition in a fast evolving retail environment [witness Peacocks recent slide into administration and key players like Next changing focus to house wares]. Cafes and takeaways can only service consumers who are attracted to a vibrant and diverse retail offer; if they proliferate at the expense of shops selling comparison goods [e.g. takeaways operating from A1 premises], the variety [and magnetism] of the overall retail offer will suffer.

Solutions

18. Compared to the national context, Brighton & Hove has much less of a problem but complacency would clearly be a mistake. While asking what more can it do, the Council should also validate itself for what it is already doing to ensure that the city thrives as a regional retail centre. Brighton & Hove is a destination city and its 8.5 million annual visitors play a vital role in supporting retail explaining to an extent why the city has bucked the national trend for seriously declining footfall and increased vacancy rates. The "staycation" effect has benefitted Brighton & Hove dramatically. The local authority's promotion of the city via VisitBrighton and the many festivals and events continue to be a valuable support for retail.
19. Festivals and events are of paramount importance to the success of retail centres and those town/city centres that simply provide an opportunity to shop are more likely to fail; consumers expect much more from the "shopping experience" than just shopping. But 'events' are a double edged sword for retailers. Those that attract large numbers of visitors without disrupting access to the city centre are of benefit but others e.g. Pride depress retail turnover with the loss of millions of pounds to the sector. To a large extent retailers are accommodating about events that are bad for their trade accepting that they may be good for another e.g. hotels & restaurants during Pride weekend. But the events calendar requires careful review. If an event does not significantly benefit the economy of the city it should be questioned; if it generates a net loss for the local economy it should be discouraged or adapted so that it doesn't.
20. Markets are also controversial, especially if they are in retail streets. Well run markets can attract large crowds and enhance the street scene but retailers often resent them because they disrupt trade and compete against bricks-and-mortar outlets that attract the footfall that makes the location attractive to stall holders in the first place. There is often a feeling that stall-holders "ride on the coat-tails" of permanent retailers without giving enough in return. Markets also need substantial upfront investment to ensure that the image they portray and the appearance of their stalls adds value to the street scene.
21. In her review Mary Portas suggested that town teams could play a major role in rejuvenating and protecting town centres. Sadly the era of the "town team" has passed. In the 1990s the concept of town centre management was supported by many local authorities more often than not in [financial] partnership with the business community. The advent of Business Improvement Districts [BIDs] made many town centre management initiatives largely redundant and the austerity imposed on councils by the new coalition government has rendered financial support almost impossible.

22. However, Portas also advocates greater use of BIDs which are thriving. There are now about 120 BIDs across the UK; very few have failed when they proceed to a ballot and none have failed at renewal ballot [obligatory after five years].
23. Brighton's city centre BID, now in its second term, will raise £1.8m over five years to be spent on
 - a. Christmas lights and promotions
 - b. on-street ambassadors working 364 days/year
 - c. dressing the city for summer with bunting and hanging baskets
 - d. bulk purchase procurement scheme to help retailers save money of utilities

Over 50% of the 517 businesses involved pay the minimum levy of £400p.a. [£1.10/day] for these services. The levy is fixed for the five year term of the BID.

24. Despite their success, BIDs are not the answer for every retail area. An attempt to establish a BID in Hove in 2007 could not muster more than 40% support and consequently it never went to a ballot. An offer to bring Queen's Road and St James's Street into the renewed city centre BID in 2011 met with fierce resistance and they were not included [although Western Road and Preston Street were added]. BIDs by their very nature are divisive; there will always be those who do not want to join but have no choice if the ballot is positive.
25. The existing city centre BID cannot be altered until 2016 and even then there may continue to be very little scope to expand it into other areas of Brighton & Hove although it is hoped that the demonstrable benefits of the existing BID will be a powerful persuader. The local authority should ask how it could support the existing BID.
26. One of the questions posed by the Committee concerned ways to get landlords, developers, agents and retailers to develop the city's retail offer but it would be constructive to look first at *what* needs to be developed. While elements of retail such as customer service, controlling & optimising stock levels, financial management, marketing and e-commerce certainly need to be "developed" the need for the development of additional floorspace in the city is questionable. Although the city centre undoubtedly lacks large floor plate units, the proposed expansion of Churchill Square [assuming it proceeds as planned] would provide these. There is no requirement for more small shop units but they are often added to new developments as part of the planning process because it is felt that retail at ground floor level adds a sense of security to the street scene.



Does Lewes Road really need three more retail units on the site of the old petrol station?

27. There is a case for reviewing the default use class of ground floor developments in the city centre and also for reviewing the existing use class of retail units in streets that have a high vacancy rate e.g. Preston Street. Would a change of use from A1 [shop] or A3 [restaurant] to B1 [office] for some long-term empty units attract tenants that would bring footfall to the street and avoid the dead frontages of empty units? Could this provide inexpensive accommodation for the creative industries sector?
28. Many retailers are missing out on the opportunities offered by E-commerce and the increasing use of Smartphone apps to promote goods and services. Is there a role for Wired Sussex and/or the Chamber of Commerce to educate smaller businesses about the advantages of this revenue stream and facilitate its adoption?
29. Small retailers must be encouraged to get professional representation for rent reviews. A successful rent register which operated in the early 1990s in the North Laine was instrumental in restraining rent growth. It relied upon voluntary labour to measure and evaluate retail premises to determine the actual rent paid per square foot [ZoneA]⁹ and then identify the “going rate” for the street as determined by the most recent precedents. The subsequent dissemination of the information ensured that retailers were better informed, and better able to bargain, when their own leases came up for review. Could there be a role for traders groups to resurrect the scheme?
30. In these challenging times when turnover is likely to be reduced or, at best, erratic retailers must strive to reduce overheads. Working with a company that uses the purchasing power of dozens of BIDs across the UK, the City Centre Business Improvement District offers a free bulk procurement service to its members to reduce the cost of utilities. One trader has saved £1000 per annum on electricity. Could a similar service be extended to all retailers?
31. For better or worse, car parking is a key element in the retail mix. In times of austerity when funding for local authorities is under pressure it may be tempting to increase parking rates to raise revenue. There may be scope to do so without damaging the fragile retail sector but increases should be modelled beforehand so that the impact can be assessed.

⁹ Zone A is the first 20 feet from the shop window; deemed to be the most valuable retail space.