A FRAMEWORK FOR MANAGING THE DEVELOPMENT OF THE RETAIL SECTOR IN JERSEY

Summary

This paper provides advice for the Ministers for Economic Development and Planning on the approach that should be taken in managing the development of the retail sector in Jersey. It considers how a balance may be struck between the benefits of additional competition and the impact that might have on existing retailers, suppliers and consumers in the wider Island community. It draws on numerous detailed discussions with retailers, suppliers and consumers held throughout March 2006 (see appendix 1). In particular it aims to provide guidance for the Ministers in dealing with Regulation of Undertakings and/or Planning applications from new or existing retailers to take additional space in Jersey.

The key points are:

- The retail sector (including wholesale) is the largest sector outside finance in the Jersey economy in terms of GVA and employment. The Island's retail sector must compliment and support Jersey's economic objectives if they are to be achieved.
- For an Island economy aiming to maximise productivity and economic growth, vigorous competition is a vital ingredient for success.
- Competition in all sectors entails a strong domestic competition framework and domestic markets that are open to trade and investment. Competition in the retail sector is conducive to maximising economic growth in the sector but also the economy overall.
- Greater competition in the retail sector has the potential to lower prices and costs through increased efficiency. Lower inflation is generally conducive to economic growth and is also good for the Island's many export industries including finance, tourism and agriculture.
- From a pure economic standpoint, unless there is evidence of market failure in the retail sector then market forces should prevail and the States should not intervene and prevent new firms setting up in the retail sector, whether they come from outside or within the Island.
- Research on the Jersey retail sector, further informed by the many detailed discussions with retailers, suppliers and consumers suggests that there are good reasons why the States should not intervene to prevent change within the retail sector:

  - Market structure, particularly in food retail is not conducive to maximising productivity in the Island;

  - Concerns about the effects of concentration when there are only two players in a market;

  - Consumers want more competition, lower prices and more choice;

  - Many retailers are not against additional competition if it is on a level playing field;

- Competition can be a catalyst for change and modernisation.

- While the economic case is for free competition and allowing market forces to determine outcomes, there may be a number of reasons why either socially or politically this may not be seen as acceptable:

  - The States has a role to play in managing the use of resources, particularly where labour and land use are restricted;

  - In a small island there is always the possibility that the market place will not be large enough to sustain competition and that a dominant firm could emerge;

  - The extent to which it might lead to at least in the short run to additional retail development in the island;

  - The need to manage transition and the impact of change on retailers, suppliers and the high street in general;

  - What change could mean for the way of life in Jersey.

- If the impact of free competition is considered too great, the paper defines an alternative incremental approach for managing change. A characteristic of this incremental scenario is delivery of a balance between realising the benefits of competition whilst minimising some of the associated risks of short term disruption to the retail market.

- The incremental scenario allows controlled entry and expansion of the retail sector and includes:

  1. Identifying likely retailers that might be interested in entering the Jersey market.
  2. Allowing entry of new retailers if they are deemed to bring competition and choice and to the same or greater extent than other likely entrants.
  3. New retailers being restricted to occupying space on a similar scale to that occupied by existing firms in the sector, unless there is a specific need for more space. This would guard against a new entrant being able to dominate the market by sheer size but at the same time not place greater restrictions on them than current incumbents.
  4. Limit the scope for additional net floorspace to the broad levels set out below and assess the impact of this new space before allowing significant further entry (unless the market structure changes):
     - 40-50,000 sq ft for convenience (supermarkets and food stores)
     - 40-50,000 sq ft for bulky comparison (DIY, electrical, furniture/carpets)
     - 15-25,000 for clothing/footwear
     - 20-30,000 for other non bulky comparison (books, toys, sports. leisure)
  5. If existing or new retailers require more space than set out in the guidelines above this should not be completely discounted but the exact impact should be the subject of a more detailed assessment.

- The incremental approach could be applied to the next five years after which a further assessment of the market would be made to quantify the scope for development of additional space in the Island. This is not to say that the impact on current retailers, suppliers and the high street will not be significant but that such a controlled approach would both limit the impact while at the same time not insulate the Island from the benefits of greater competition.

- There could be significant long term employment effects, with the creation of significant job opportunities in a 5-10 year period, if additional retail space is truly additional. However, if in the likely event that there is some impact on existing businesses, displacement would occur and net employment opportunities (while still likely to be positive) would be reduced. This analysis describes a static scenario, however the dynamics are such that any resulting productivity improvements will mean the sector makes better use of the labour it employs enabling it to service a higher level of demand with the same number of people or the same level of demand with fewer people. Any increases in employment are considered to be within the bounds of the working population growth targets incorporated in the Strategic Plan.

- When the Island Plan is updated further consideration should be given to the guidelines on retail development to ensure that they do not unnecessarily impede market forces and the required development of the retail sector. Further consideration should be given as to whether there are any sites where new retail development could be permitted outside St Helier?

- The focus of this paper is very much about making Regulation of Undertakings and Development Law (RUDL) and Planning decisions. It is intended to assist Ministers in making decisions should retailers come forward in the near future wanting to establish themselves in the Island or expand their current presence. The Economic Development Department over the course of this year will work with the retail sector to develop a wider retail strategy for the Island to maximise the contribution of the sector to economic growth. A Retail Sector Manager has recently been appointed who will work with the retail industry to identify the key issues for the industry.

Introduction

This paper provides advice for the Ministers for Economic Development and Planning on the approach that should be taken in managing the development of the retail sector in Jersey. It considers how a balance may be struck between the benefits of additional competition and the impact that might have on existing retailers, suppliers and the wider Island community.

The paper draws on economic analysis of the key issue about allowing greater competition in the retail sector and considers what role the government should have in influencing the entry of new or the expansion of current retailers in Jersey. In doing so it draws on the range of recent research on the Jersey retail sector and the views of retailers, consumers and suppliers from detailed discussions held during March 2006.

The focus of the paper is very much about making Regulation of Undertakings and Development Law (RUDL) and Planning decisions. The advice provided by the paper is intended to assist Ministers in making decisions should retailers come forward in the near future wanting to establish themselves in the Island or expand their current presence. The Economic Development Department over the course of this year will work with the retail sector to develop a wider retail strategy for the Island to maximise the contribution of the sector to economic growth in the Island.

The retail sector in Jersey

The retail sector (including wholesale) is one of the largest in the Jersey economy both in terms of employment and GVA. It employs just over 7,000 people (on an FTE basis) or about 16% of those employed in the Island – the largest employer outside the finance sector. Wholesale and retail contribute just over £200m in GVA per year, equivalent to nearly 7% of the economy overall – the second largest sector outside finance. That equates to about £30,000 GVA per employee – the ninth highest and higher than agriculture and hotels, bars and restaurants.

The figures above refer to the direct contributions of the retail sector and do not include the supply/service linkages to the rest of the economy, although there will also be a high import content in the supplies it uses. Likewise the sector will be dependent on other industries in the Island to generate demand for the products it sells. Neither do such statistics include the benefits the retail sector may bring in terms of adding to the quality of life for residents and people that come to work in the Island and providing facilities for tourists.

The retail sector is clearly an important component of the Jersey economy. If the Island is to achieve its economic objectives then the retail sector must have complementary objectives.

Economic objectives

The broad economic objectives of the Island all relate to the key issues of generating sustainable economic growth with low inflation and employment opportunities for local people.

Sustainable economic growth requires skills, enterprise, investment, innovation and competition. Low inflation requires keeping supply in train with demand in the economy and allowing competition to flourish to drive efficiency improvements and lower costs.

The States Economic Growth Plan (EGP) states quite clearly that:

> *"Ensuring there is vigorous competition between firms is also critical to maximising productivity and economic growth. Competition encourages firms to innovate by improving efficiency and reducing slack, puts downward pressure on costs and improves the organisation of production. The end result is a better deal for consumers."*

The benefits of competition

Competition in markets is about ensuring that the economy's resources are put to their best use – something that is critical for all economies but even more so for an island economy with limited resources at its disposal. Competition encourages enterprise and efficiency and widens choice. Freely operating markets provide strong incentives for good performance - encouraging firms to lower costs through improved productivity and innovation and to reduce prices. Consumers benefit from these lower prices, higher quality and wider choice. Where competition at home (between domestic firms alone or between domestic and overseas firms) improves efficiency it will also improve international competitiveness. This is important for all economies but again particularly so for those like Jersey which are dependent on key export industries.

There are two broad aspects to ensuring competition prevails: a strong domestic competition framework and domestic markets that are open to trade and investment by overseas firms. The former is largely the role of the JCRA but the latter clearly can be influenced by States decisions regarding RUDL and Planning. It is exactly these types of decisions relating to the retail sector that are the focus of this paper.

It is worth considering in a little more detail how competition in the retail sector can feed through into economic growth in the Island. The analysis above shows that the benefits of competition come largely through increased efficiency and lower costs. Would greater efficiency of the retail sector in Jersey help create economic growth? There are a number of ways that it could do so:

1. Lowering the cost base of the sector would lead to a higher GVA contribution from the retail sector through higher margins. This in turn could lead to greater investment and further efficiency gains. [Whilst the retail sector has a significant role to play, lowering the cost base is a function of many factors in the supply chain not least the costs associated with points of entry to the Island. This issue is currently being addressed by the Economic Development Department.]
2. If a lower cost base led to lower prices (either margins remain constant or do not increase by the full amount of the cost saving) this would lower inflation. This could generate growth within the retail sector and/or elsewhere in the economy by freeing up expenditure for other goods or services.

3. Lower inflation is generally conducive to an efficient economy and would also be good for the Island's many exporters whether in finance, tourism or agriculture and allow them to compete more successfully in their market place.
4. Higher productivity in the sector could free up resources to be employed elsewhere in the Island.
5. If some expenditure that is currently leaking out the economy either through internet purchases or shopping off island can be retained this would help add to growth in the Island.

It is possible that competition can achieve all of the above and that it can drive economic growth across the economy. That is not to say that competition under any circumstances is automatically a good thing or that it would have the same impact in any circumstances. There are circumstances when allowing free competition may not reach a desirable outcome and where the government has a role in intervention.

Government intervention

The rationale for government intervention is essentially two fold: improving economic efficiency by allowing markets to operate more effectively and achieving objectives of equity. From a purely economic perspective the case for government intervention normally centres on the first issue of economic efficiency, although once equity objectives have been set economic policy can help achieve them. The role for government is therefore largely about identifying market failures (where the market mechanism cannot achieve economic efficiency) and correcting them. The Economic Growth Plan describes in more detail the various types of market failure.

There is little reason to think that market failure exists in the retail sector and even if it did that the appropriate response would be for government to restrict competition. If the evolution of the retail sector lead to a significant reduction in the high street retail offer then under certain circumstances this might be market failure. But it could also simply reflect consumer preferences for a different retail offer and the market adjusting to changing needs. The other potential market failure is a lack of competition which could result in market power, which is not an argument for government intervention to prevent competition.

The broad principle is clearly that the States should not be preventing new firms setting up in the retail sector, whether they be from outside or within the Island, unless there is evidence of market failure. If there is no real reason to believe there is market failure then does that mean that the government has no role in intervening in terms of allowing new retailers to enter the market?

In Jersey, given the constraints of a small Island economy the government also has an important role to play in managing the use of the Island's resources. It is worth considering in a little more detail whether change could potentially help the States achieve its overall economic objectives and complement the need to manage use of the Island's resources.

Need for change

There is already competition in the retail sector in Jersey between retailers in the Island but also from external sources such as the internet and people shopping when in the UK and France. However, this does not mean that the government should be preventing further competition or that there is no scope to improve the performance of the sector. Competition could still facilitate change that could bring benefits for the sector and the Island economy overall.

Drawing on all the research on the retail sector and the detailed discussions with retailers, suppliers and consumers it is apparent that change is needed within the retail sector not just for general efficiency reasons but from a number of aspects:

- Market structure, particularly in food retail is not conducive to maximising productivity in the Island (page 19). There is little reason to prevent new entrants to the retail market in Jersey and indeed to shelter any sector from the potential of such entry would not be conducive to the economic objectives of the Island.
- Where there are two players in a market there should be concerns about the effect of concentration (page 22).
- There is strong feeling amongst consumers that they would like to see additional competition because they believe it will bring lower prices and/or wider choice to the Island (appendix 1). They also see little reason to protect the Island's larger retailers.
- There is also a widely held (although not universal) view amongst Jersey retailers that market forces should prevail and that competition should not be restricted but allowed on a level playing field (appendix 1).
- Competition can also be a catalyst for modernisation which could bring overall efficiency improvements for the sector and the Island in general.

But does the need for change and competition actually mean the only option is free competition? This is considered in the next section.

Free competition?

If competition is generally good for the economy and there is no evidence of market failure should the States adopt a relatively loose policy for granting RUDL licences and planning permission to new or current retailers? There are several reasons to be concerned about such an approach.

Firstly, if a similar policy is not applied to other sectors then it would create distortions in the market and probably other inefficiencies. Also, if the States continues to restrict growth in the workforce then the end product could simply be to bid up wages in the Island and add to inflationary pressure in the economy. This could undermine businesses already in the Island – from other retailers to firms in other sectors such as tourism, agriculture and finance. There is also the related point as to what scope there is for any additional employment in the sector and whether the labour could be used in higher value activity (given the relatively low value added per employee in retail).

Secondly, in a relatively small market there is a danger that free competition can result in only one firm surviving and that they are left in a dominant market position. However, if this was the result of competition in any of the key retail sectors it would be for the JCRA to use its powers to ensure that the dominant firm would not abuse its market position.

Thirdly, there could be a number of other related (largely non-economic) factors over which the States might want to maintain some influence and would therefore require a more interventionist approach:

- The extent to which it would lead to additional retail development in the Island (within the boundaries set by the current Island Plan).
- The need to manage transition and the impact of change on retailers and suppliers and the high street in particular.
- How change would impact on the way of life in Jersey.

From a pure economic standpoint there is little reason to prevent competition taking its course, as long as full consideration is given to:

- the prevailing economic conditions;
- the scope within the labour market for additional job creation;
- potential alternative uses of the labour required;
- planning policy.

To manage things in this manner would not require a specific policy change as this is largely the way that RUDL is currently used to manage the Island's resources. However, from a social and/or political standpoint some of the potential outcomes of free competition outlined above may be undesirable and unique to retailing so there might be a need to implement a more controlled policy. The next section considers how this could be done while still harnessing the benefits of competition.

Managing change

The middle ground between free competition and a protectionist stance is one where the government allows market signals to determine outcomes but it manages the extent and nature of the change this will bring. How can the States of Jersey manage change within the retail sector?

The scope for change

Experian in their report set out what they feel are the requirements for additional space in the various parts of the retail sector in Jersey. However, these recommendations must be put in context – they are only estimates and include a significant margin for error. Retailers and suppliers in the Island also firmly believe that the margin of error is not evenly balanced and that Experian's estimates significantly over play the need for additional space and therefore underestimate the impact on existing businesses.

It would be unwise given such caveats about the data to use Experian's recommendations by themselves as a guide for the scope for additional retail space alone, on the basis that the Island is overtrading as they describe. However, they could be used as boundaries for a more incremental approach. That is, if additional space was allowed but not to the full extent of the Experian recommendations it would allow the impact to be assessed. Depending on what the impact was it could be decided as to whether to allow further expansion beyond that already permitted. How an incremental approach might be applied is considered in more detail below.

Implementing an incremental approach

If the States is to reap some of the benefits of greater competition but guard against some of its negative consequences then it must be ready to allow controlled entry into the retail sector. A general approach would be:

1. Identify likely retailers that might be interested in entering the Jersey market so that the Ministers are aware as to who may or may not come forward in future. This would be about ensuring the market worked efficiently with all potential entrants or incumbent firms having the same information about the Jersey market. This proactive analysis could also be used to inform the Regulation of Undertakings and Planning system on a case-by-case basis. This would manifest itself as a market-based check and balance on individual applications. This analysis would include direct impact on retailers and consumers and the indirect impact through the supply chain. The Economic Development Department have recently appointed a Retail Sector Manager who would be charged with providing such advice.

2. Subject to the analysis in 1 allow entry of a new retailer/s if they are deemed to bring competition and choice to the sector in which they operate, and to the same or greater extent than other likely entrants.

3. New retailers should be restricted to occupying space on a similar scale to that occupied by existing firms in the sector, unless there is a specific need for more space. This would guard against a new entrant being able to dominate the market by sheer size but at the same time not place greater restrictions on them than current incumbents.

4. Limit the scope for additional space to the broad levels set out in Table 1 and assess the impact of this new space before allowing significant further entry (providing the market structure does not change).

5. If existing or new retailers require more space than set out in the guidelines below then this should not be completely discounted but the impact on the particular sector concerned and the wider economy should be the subject of a more detailed assessment.

What such an approach means for each sector in turn is considered below.

Convenience retail

Given the likely size of some of the larger stores in the Island if a new entrant was allowed to compete on equal terms with the current incumbents then it should be allowed to open a store in the region of 40-50,000 sq ft. A larger store should not be ruled out but the risks that it will have a major impact on existing retailers, suppliers and the high street will be much greater and therefore the issue would need more detailed consideration.

At 50,000 sq ft it would be hard for a store to dominate the market. Even if it was able to achieve very high sales densities of say £1,500 per sq ft (significantly above anything Experian estimate is achieved in the Island at present and well above the average for the UK operations of major multiples such as Tesco and Asda), then annual sales would equate to £75m a year – about 35% of the convenience market in Jersey. This also assumes 100% of the space is devoted to convenience which is unlikely to be the case, as it is common for new supermarkets to have a 50/50 split between comparison and convenience. If that was the case then likely sales would only amount to 17% of the convenience market.

This is not to say that the impact on existing incumbents would not be severe. Even if the economy expands and there is some growth in the convenience market such a large decline in sales for existing firms would be very significant. However, for a firm to come and achieve such high sales densities it would have to be competing favourably on price and choice. The impact on existing businesses would also depend on their ability to respond. It cannot be ruled out that such a significant new entrant would lead to existing retailers – large or small - leaving the market.

Comparison goods

For comparison goods it will be important to assess the likely scale of any new supermarket and the space it would devote to comparison before making any decisions on new space elsewhere. Each sector is considered in more detail below.

Bulky

New space of 40-50,000 sq ft in bulky goods would allow three new entrants of 15,000 sq ft in DIY, furniture and carpets and electrical goods. Even if such space was to achieve sales densities significantly higher than Experian estimate it would be hard to envisage any new entrant achieving a dominant position. For example, sales densities of £500 per sq ft that are significantly higher than Experian's estimates of sales densities in the Island and above the UK average would generate annual sales of £25m which would equate to about 25% of the market. Again it is hard to envisage this leading to a dominant player in the key bulky goods markets but it is also likely to have a significant impact on existing businesses. The exact extent and impact will depend on how well the new space could compete on price and choice and how current retailers can respond.

Clothes and footwear/other non bulky goods

These sectors are the ones that Experian's analysis suggests actually have low sales densities relative to UK benchmarks (and this is before adjustment is made for higher costs in Jersey) and are where Professor Sparks noted a numbers of retailers had recently left leaving vacant floorspace. This means that any additional space in these sectors has a high risk of displacing current activity. This does not mean that there should be no scope for additional space but just that the impact on existing businesses is likely to be greater. There may also be a differential impact of additional space within these sectors. For example there was a clear need amongst consumers for more choice at the budget end of the clothing market e.g. Primark, Matalan and TJ Maxx etc. This may not have such a large impact on existing businesses that are at the higher end of the clothing market (particularly if people are already shopping at these stores off Island) as would be the case with another higher end competitor.

Low sales densities could also mean there is a need for new space if new space could actually deliver higher sales densities and therefore boost productivity.

If additional clothing/footwear space of 25,000 sq ft is permitted and it achieves a sales density of £400 per sq ft (33% higher than Experian's estimates of current densities) then it would achieve annual sales of £10m – only about 15% of the market.

Similarly 30,000 sq ft of other non-bulky space would be unlikely to achieve more than £350 sq ft (33% higher than Experian's estimates of current densities) and that would equate to £10.5m or about 11% of the market.

Again, the case in both circumstances is unlikely to lead to one retailer dominating the sector but will be likely to impact on existing retailers and suppliers. The exact extent and impact will depend on how well the new space could compete on price and choice and how current retailers can respond.

Table 1: Additional space relative to current space
net floorspace in sq ft

Sector	Current floorspace	New space	% of floorspace
Convenience	245,000	40-50,000	15-20%
Comparison:			
Bulky	260,000	40-50,000	15-20%
Clothes/footwear	235,000	15-25,000	5-10%
Other non-bulky	345,000	20-30,000	5-10%
Total	**1,085,000**	**115-155,000**	**10-15%**

Source: Experian/Economics Unit calculations

It is worth bearing in mind how these numbers relate to some of those in the Experian report. Firstly, the floorspace data is drawn from their estimates but the conclusions are not dependent on their data. The approach is really about allowing an incremental increase in floorspace that could bring competition through additional space that would not disadvantage current retailers from a scale perspective.

Secondly, if the estimates of expenditure in Experian overstate the market size then it would suggest that sales densities of current incumbents are significantly lower than Experian estimate. If this were the case the market would be smaller and the potential impact of a new entrant greater if it achieves UK sales densities. However, the chances of it achieving UK sales densities would depend on it being able to bring lower prices and or greater choice and therefore perform significantly better than current retailers.

Thirdly, this additional floorspace does not include pipeline developments but would be on top of extensions to existing premises. So, if Westmount Quarry is allocated to supermarket space this would be deducted from the retail space in Table 1 and the same would apply to the retail space at the Waterfront. The additional space in Table 1 is significantly less than Experian recommends because their recommendations were on top of pipeline developments.

Such an incremental approach to expanding retail space in Jersey could be applied for the next five years. Once additional space has come on stream and the impact has been assessed it could then be decided as to whether to allow additional floorspace up to that proposed by Experian.

Labour market issues

If the above space was purely additional to the current space then it would create additional employment opportunities. Employment densities in the Experian Report would suggest that the magnitude of such opportunity is in the region of 500-700 jobs. There is a valid question as to where the additional labour could come from but assuming that the space was phased in over a number of years there would be scope for natural workforce growth of this scale in that time. Of course the greater the impact on existing businesses the less the requirement for additional labour.

In addition, if the end product of increased competition is for retailers to modernise and improve productivity at a greater rate than they would otherwise have done, then this will enable them to service a higher level of demand with the same amount of labour or the same amount of demand with less labour – important efficiency improvements for a small island economy. There may also be scope to increase labour flexibility e.g. through greater use of part-time employment.

Other issues

Lower prices?

The impact of greater competition will be enhanced if as well as improving efficiency there is the prospect of a new entrant bringing lower prices. The views of consumers and retailers differed markedly in this area. Consumers certainly feel that UK and French retailers would deliver significantly lower prices as they tend to be fully aware of the prices in the UK and France. Retailers however, tend to argue that higher prices in Jersey are solely down to higher costs - logistics, wages, rent.

To a degree both sides have a point. UK and French prices do tend to be lower, at least for some goods. Costs in Jersey, however, are higher in a number of areas with the costs of doing business in a small island generally higher than on the mainland but they are also lower in other areas e.g. rates, corporation tax (at least for Jersey owned retailers). Large UK/French retailers do have one significant advantage over their Jersey counterparts. That is the economies of scale in purchase costs. The example of Tesco and Asda being able to get the best deal from suppliers is the often quoted example, but this will be true for retailers in other sectors that also are able to get the economies of scale through supplying a much larger market and customer base.

The potential for lower prices through economies of scale should not be confused with UK/French retailers being able to supply goods at UK/French prices. The higher costs of operating in an Island will mean that prices could be higher than those in the UK or France but there is still scope for them to be lower than those currently charged in Jersey. There is also the point that where UK multiples charge UK prices inclusive of VAT that increased competition could encourage them to charge VAT free prices (albeit if there was still some mark up reflecting higher costs in Jersey).

Greater competition could bring lower prices through two key channels:

- efficiency gains and lower costs
- retailers from outside the Island being able to bring cost savings through economies of scale.

Tax revenue implications of 0/10

Foreign owned retailers will pay no corporation tax in Jersey (although their employees will pay tax on salaries and expenditure) after the implementation of 0/10 although they will still pay the same amount of corporation tax, just more in their home jurisdiction. This was cited by some retailers and suppliers as a reason not to allow additional competition from foreign owned retailers.

This is however looking at things in a very static way. The reason for allowing competition is the benefits it can bring through greater efficiency and lower prices. These dynamic effects will help to generate value added (profits and wages) and corporation tax elsewhere either from other retailers or businesses in other sectors. To prevent competition would be detrimental to the Island's economic objectives of achieving economic growth and low inflation.

Leakage

Both retailers and consumers tended to agree that there was significant leakage of expenditure off island either through purchases over the internet and/or purchasers made directly in UK or France. Where any of this leakage can be captured on island there will be a potential to increase the economic benefit to Jersey from such expenditure. New space and additional competition may mean that the Island can capture more of this expenditure through price or choice effects. However, that is not to say there is a need to capture all of this expenditure or indeed that it is possible to do so. Rather that the more competitive the retail space in the island the lower the leakage that is likely to take place.

Island Plan

Existing retailers and any new ones that want to set up in the Island will all be subject to the same planning guidelines, as set out in the Island Plan. The Council of Ministers has committed in the draft Strategic Plan for 2006-2011 to update the Island Plan with a new emphasis on forward planning. This might be a time to also consider whether it is focussed on facilitating economic growth and in particular how it might impact on the retail sector.

The current Island Plan states quite clearly that it aims to protect and promote St Helier as the main retailing centre of the Island. New retail development outside St Helier town centre will not normally be permitted except where it is consistent with the other aims of protecting and promoting local shopping centres and developing local shops. Changes of use involving a loss of ground floor retail floor space within the town centre and within local shopping centres from retail to non-retail will not normally be permitted.

Proposals for the provision of new food retailing space over 5,000 sq ft will not normally be permitted outside St Helier. In exceptional circumstances, major food retail development may be permitted outside St Helier town centre where it will not have an effect on existing retail centres and that a rigorous sequential approach to site selection has been undertaken.

All these guidelines put a straight jacket on market forces and partly explain why the retail offer has evolved in a fragmented way. If the Plan is to be updated it will be worth considering whether such guidelines could be loosened to allow market forces to operate more freely and allow the structural change that this might bring within the retail sector. Emphasis could still be placed on meeting some of the objectives about limiting the damage to existing retail centres. It will be worth considering in particular whether there are any potential sites for new retail development outside of St Helier? This issue will be addressed by the Economic Development Department as part of its wider study into the retail sector across the Island that will inform any update of the Island Plan.

Research on the Jersey retail sector

The next sections look in more detail at the various pieces of research that have been conducted on the Jersey retail sector and discusses the important findings and any areas of disagreement.

Experian

Independent consultants Experian produced a detailed report *"An assessment of Jersey's retail sector"* in June 2005 which was revised with some data amendments in December 2005. The report represents a very in-depth analysis of the retail sector in Jersey. The core focus of the report is a capacity study of the Island retail sector and it also considers some further wider retail issues.

The capacity study looks at the size of the retail market in terms of total expenditure and how it breaks down by convenience (food and other consumables), comparison (non consumables), bulky goods (a subset of comparison covering furniture, carpets, DIY and electricals) and non-bulky (clothing and footwear). It then uses an extensive data base to look at the amount of retail space in the Island. The expenditure and floorspace data are combined to look at sales densities in the Island and these are compared against benchmarks from the UK.

Some of Experian's key conclusions were:

- There is a strong consumer need for new retail floorspace in Jersey. The Island is undersupplied (i.e. it has insufficient retail floorspace to meet consumer demand) and the existing retail offer lacks the necessary breadth and depth to do justice to the high spending power of its inhabitants.
- Some aspects of the existing retail floorspace are overtrading – essentially that means that the market is overheating and failing to capitalise fully on its potential. Other by-products are that retail spending and wider economic growth may be stifled going forward and consumer choice compromised.
- The need for new floorspace is most acute in convenience goods.
- The Island needs between a bare minimum of 30,000 to a comfortable 55,000 sq ft of new convenience floorspace on top of the planned extension to Checkers on Rue des Pres and use of Westmount Quarry.
- The need in comparison goods is less pressing although it is believed to be between a minimum of 60,000 to a comfortable 110,000 sq ft respectively and on top of the 90,000 sq ft planned for the Waterfront at the time. Experian stipulate that a significant proportion of any new comparison floorspace should be given over to bulky goods such as furniture, carpets, DIY and electricals.
- The Jersey retail market has the capacity to accommodate both new floorspace and existing centres.
- St Helier is a strong retail centre and 'more than punches its weight'.

- There are fundamental differences between the structures of the UK and Jersey convenience markets, with the ‘Big Four’ dominating the UK market while none of them are present in Jersey.

The very nature of the Experian report given that it is based on estimates of expenditure and floor space means that the results can not be treated as exact. There is scope for a margin of error in both the numerator and denominator in the sales density calculation which obviously means that the overall density figures cannot be precise. That said the margin of error lies both ways – density figures could be higher or lower than Experian estimate, meaning the need for additional floorspace is higher or lower. It is worth considering in a little more detail the estimates of both expenditure and floorspace to see how they were calculated.

Expenditure data

The expenditure data was taken from the 1998/9 Household Expenditure Survey produced by the States of Jersey Statistics Unit. Experian used the trend in RPI for each category of good to up rate the expenditure to 2004 prices. This means that where prices have risen by 24% for a particular good, expenditure on that good is estimated to have increased by 24%. If the price of another good has fallen by 6% then expenditure on that good will have been estimated to have fallen between 1998/9 and 2004. This clearly misses out any dynamic effects such as when the price of a good falls consumers may buy more of it or at least have more to spend on other goods and when the price rises they may not buy as much or may have less to spend on other goods. In addition, changes in expenditure are driven by a host of factors, the price of the goods only being one of them.

Other important drivers of consumer expenditure will be employment levels and earnings growth, the level of the population and general consumer confidence (a function of economic and financial conditions). Between 1998/9 and 2004 employment has fallen by between 3-4%, earnings have grown by 40% and population growth has been in the region 1-2,000. If anything these factors suggest that expenditure growth could have outstripped RPI over the course of the period considered.

Taking all the issues above together it is clear that with the information available at the time Experian made a suitable estimate of household expenditure in the Island and that there may even be a case to say that household expenditure and the related level of retail sales is higher than Experian calculated (which could mean they would have recommended even more retail space). However, the only way to be sure will be to see the next set of household expenditure data when it is available later this year.

Floorspace

In calculating retail floorspace in the Island Experian used their own Goad database which covers 1,200 town centres and 800 retail parks across the UK and covers St Helier. The St Helier plan was last surveyed in July 2004 and revisited in January 2005 and was supplemented with bespoke surveys of the other key retail centres in the Island. An extremely detailed approach was therefore adopted for estimating retail space in the Island but there will clearly be scope for a margin of error around the estimates. Professor Sparks in his report (considered in more detail below) raised concerns about the accuracy of the floorspace data used in the Experian from three angles.

Firstly there seemed to be inconsistent use of floorspace data which Experian corrected in their revised version of the report. Secondly, he cited five examples of convenience stores in the Island where floorspace was greater than Experian had estimated – to the extent of 10%. Given such a small sample of shops it is hard to draw any meaningful conclusions from this as the margin of error in such an approach is likely to mean that there will be both underestimation and overestimation at the individual store level, but that this does not mean there is systematic over/under estimation.

Thirdly, Professor Sparks also undertakes a comparison of floorspace per head in England and Wales and Jersey which he concludes shows that "Jersey has far more floorspace per capita than England and Wales". However, further examination of the data shows that the calculations are incorrect and the data actually shows that floorspace per head on the basis of those calculations is significantly lower in Jersey than in England and Wales, even though Jersey has more expenditure per head.

The floorspace data used in the Experian report is the most comprehensive available on the Jersey retail market. However, the data is an estimate and as such there will be a margin of error on both sides. It is important to bear this in mind when considering future decisions concerning the retail sector in Jersey.

Inconsistencies

There are, however, inconsistencies that arise between Experian's approach in the first report and in their revised report, which suggest a note of caution in interpreting their conclusions. One of the key revisions between the two reports was a significant increase in the amount of floorspace used to calculate non-bulky goods sales densities (on page 59). The end product was that sales densities for non-bulky comparison goods fell from £499 sq ft to £287 sq ft and with overall sales densities for bulky goods unchanged, overall comparison goods densities fell from £464 sq ft to £320 sq ft. With everything else remaining equal you would expect that this meant their conclusions for additional space on non-bulky goods changed significantly between the two reports.

However, Experian were specific that it was very difficult to draw conclusions about the non-bulky sector outside that of clothing and footwear. The only calculation they thought was meaningful and therefore they undertook was one on sales densities for clothing and footwear which was based on a separate estimate of floorspace in that sector. Their estimate of sales densities for clothing and footwear was therefore unaffected by the data changes and remains at £300 sq ft which they estimate is some 25% below the appropriate UK high street benchmark of £380 sq ft. Experian conclude that overtrading is far less of an issue in clothing and footwear but also point out that the data suggest that the sector in Jersey is not very productive relative to their UK counterparts and that this is attributable to high representation from the independent sector in Jersey.

Where the change in the estimate of floorspace data has clearly had an impact is for the remaining parts of the non bulky sector outside of clothing/footwear e.g. books, toys, sports equipment, leisure goods where estimated densities have fallen from a clearly erroneous £910 sq ft to £260 sq ft. This compares to general benchmarks for all comparison goods of between £220 to £390 sq ft. **Given such a wide range it is probably safe to say that the rest of the non-bulky sector is in a similar position to that of clothing and footwear – there is little evidence of overtrading but question marks about the structure of the sector and its productivity levels.**

Given that there are no changes to the data on the convenience side the approach used in both Experian's reports to estimate capacity needs is consistent. However, when estimating the need for comparison space the approach does seem to have varied between the two reports. The estimates for overall sales densities in Jersey for comparison goods was reduced from £464 sq ft to £320 sq ft – largely because of the error in estimating floorspace for non-bulky goods. The conclusions for floorspace needs are however, not changed. This does seem to be inconsistent. What is the explanation?

Part of the explanation is that there is more data available for the second report which includes sales densities for the comparison sector in the UK produced by Mintel which were not used in the previous report. Their estimate put UK comparison sales densities at £220 sq ft compared to the figures used in the first report of £350 sq ft which was based on data from Verdict and Experian's own calculations. The benchmark for the second report was set lower at £300 sq ft because of the new data. This lower benchmark in itself would have allowed Experian to justify more additional floorspace but there was a further difference.

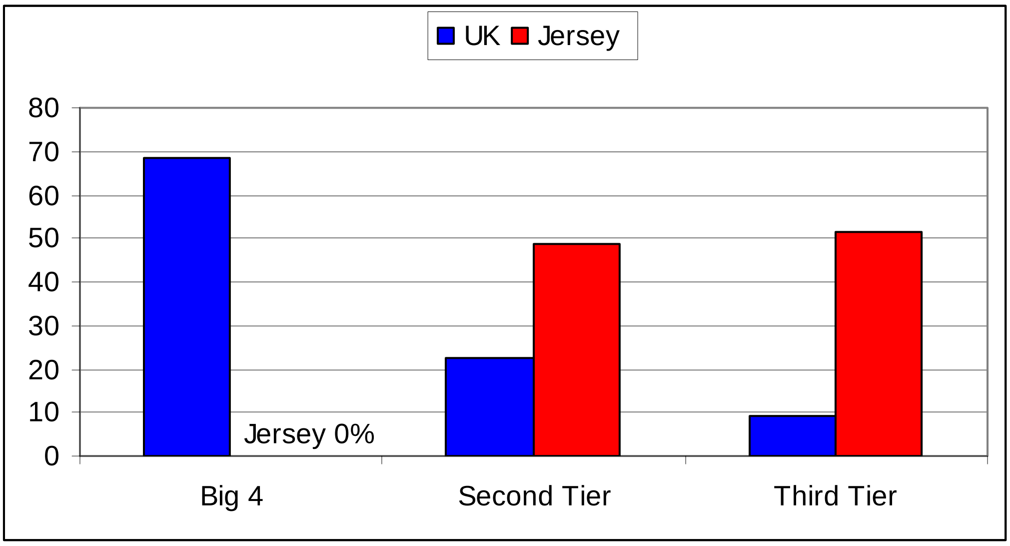
In Experian's first report their minimum figure of 150,000 sq ft allowed for no market expansion and their comfortable estimate of 200,000 sq ft allowed for 5% market expansion. That is both cases allowed for no or very marginal market expansion. In their second report to continue to justify the 150,000 and 200,000 sq ft figures they actually allowed for 10% and 15% market expansion respectively. If the same degree of market expansion was allowed for as in the first report it would have only justified 50,000 and 100,000 sq ft. Once adjustments are made for pipeline developments it would actually mean the net figures were close to zero.

This would actually suggest an Experian type analysis means that if only limited market expansion is expected then additional comparison retail floorspace in Jersey could result in a high degree of substitution of current retail activity. However, the story is not as simple as that. The Experian results actually show that there is a clear split between high sales densities for bulky comparison goods – electrical/DIY/ furniture/carpets and low sales densities for non-bulky goods such as clothing/footwear, books and toys. **The Experian analysis actually suggests that the high degree of risk that new retail space will lead to significant substitution of current retail activity is therefore actually in these non-bulky comparison goods sectors. This is not something that comes out particularly clearly from their conclusions.**

Structural issues

There is other data in the Experian report which provides important information on the nature of the retail market in Jersey. Their research on the structure of the convenience market in Jersey provides some stark conclusions. The chart below shows that in the UK market the 'Big 4' dominate it and account for 68% of the market. In Jersey, following the CI Traders acquisition of Safeway, the Big 4 have no market presence. Second tier (other multiples such as Marks & Spencer, Waitrose, Checkers) account for 22% of the UK market but 48% of the Jersey market. Finally, the third tier (Co-op, Symbol Groups and Independents) account for 9% of the UK market but 51% of the Jersey market.

Chart 1: Breakdown of convenience space in Jersey
% of convenience market



Source: Experian

Experian go on to explain that they believe that the pricing differentials on fresh food convenience products between Jersey and the UK are "primarily a function of the structure of the respective markets" and that "the convenience retailers in Jersey (with the exception of M&S) do not have the buying muscle and economies of scale to compete with the large UK multiples on price".

Report by Professor Sparks

In October 2005 Professor Leigh Sparks from the Institute for Retail Studies at the University of Stirling produced his report *"A commentary on the Experian Report"* following an invitation from the Jersey Chamber of Commerce to comment on the Experian Report. He expressed a number of concerns which are considered below.

"The per capita spend comparison with the UK as a whole may be misleading and in effect the Jersey market size may be over-stated in the report". As discussed above when considering the Experian Report the expenditure data used is an estimate and therefore must include a margin for error. There is as much of a chance that it is an

underestimate of expenditure levels as it is an overestimate. Professor Sparks is right to emphasise that there is some uncertainty around the expenditure data.

"It would seem that there might be inaccuracies in description and reporting (at best) and possible inaccuracies in analysis and calculation (at worst) in terms of floorspace data". Professor Sparks identified some errors in the first Experian report which were corrected in the second report. However, his own calculations on floorspace per capita were flawed (as described above) and must therefore alleviate some of the concerns that floorspace data is inaccurate.

"A review of the costs of retailing on Jersey suggests that costs are substantially higher than the UK". That labour costs and distribution costs are higher in Jersey than the UK mainland does not seem to be contentious. The only issue is the extent to which they are. The examples in the Sparks report do suggest that labour costs might be more than the 10% higher that Experian suggested but on the basis of the evidence provided it would be difficult to reach general conclusions about the extent to which labour costs are higher in Jersey than on the mainland.

"A number of UK retailers have entered and exited Jersey. Central St Helier currently has a number of vacancies". When the evidence supporting these assertions is examined it is apparent that the vast majority of the vacant space has been vacated by clothes/footwear and other non-bulky comparison stores. The UK multiples that have entered and exited are with one or two exceptions also in the non-bulky comparison sector. This would actually support the previous analysis of the Experian report that highlighted their data actually showed that in the non-bulky comparison sector sales densities seemed below comparative benchmarks.

"The development of additional floorspace as recommended by Experian would have a substantial impact on the retail and supply sector of Jersey. It is inconceivable that the present retail system, with its emphasis on convenience, independent and local stores would survive intact". This cannot really be disputed but the real issue is whether the impacts of additional retail space would have significant negative consequences for the retail sector and the Island as a whole.

"These issues are compounded by the timing of the report". The suggestion here is that the Experian Report could have waited until there is new household expenditure data and the impact of developments in the pipeline could be assessed. In an ideal world this might be the case but the reality of the matter is that the Ministers for Economic Development and Planning could face an application for additional retail space tomorrow and in particular analysis needs to be conducted ahead of Supplementary Planning Guidance for the Waterfront. To delay the retail work is not a realistic option.

"How is 'Jersey life' valued?" Professor Sparks makes an important point that while there could be benefits from changes in the retail structure in Jersey this could also change the nature of the high street. He recommends a wide ranging public discussion about the value Jersey residents place on their current retail system. The discussions with consumers and their representative groups undertaken as part of this report have specifically focused on these issues.

"Making Jersey a clone of the UK seems a poor vision for the Island". Retaining Jersey character on the high street is important for the attractiveness of the Island as a tourist destination, place to come to work and for Island way of life. However, this needs to be balanced with providing what the consumer wants – whether they are tourists, transient employees or Islanders. If demand is there in the Island for goods that a particular UK store can provide at the right price and it wants to come to the Island then why should the government stand in the way? There can be little doubt that simply seeking to make Jersey a clone of the UK is however, a poor vision.

"Table 4: Selected recent retail investments in Jersey". Table 4 in the Sparks report lists a number of recent retail developments. This could be looked at in two different lights. Firstly, that additional space has already come on stream in recent years and that the scope for further additional space is limited (but this does not take into account what conditions at the start). Conversely, that it is a sign of a retail sector that is growing out of its current floorspace and trying to expand floorspace to meet its needs.

"Underpinning the analysis would appear to be a belief that the retailers on Jersey are making substantially above average returns and thus can accommodate reductions in sales and thus profits." Experian make it clear that this is not what they believe to be the case but as mentioned above that higher prices relative to the UK are a consequence of differences in market structures.

"Many of the local retailers are intimately bound up in the life of the Island. They support local suppliers by listing their products and working with them to sustain businesses." There is a valid concern that a new supermarket entrant might not source as much locally although this is by no means clear cut. Different supermarkets have different models as to the extent they use local suppliers but it is fair to say that some of them may not source as much locally as some of the current supermarkets.

JCRA

The Economic Development Committee requested the assistance of the JCRA " in seeking to ascertain the reasons why prices of certain food products in Jersey appear to be significantly higher than prices for equivalent products in the UK". Their report was published in October 2005 and the primary conclusions were:

1. The majority of food products surveyed are more expensive in Jersey than in the UK, with some products being significantly higher priced. Historic below-cost pricing for some products in the UK, however, complicates price comparisons.
2. The price differential for food between Jersey and the UK probably is attributable to several factors.
3. One contributing factor is the higher cost of doing business in Jersey compared to the UK. The cost of labour appears significantly more expensive in Jersey, as much as 40% higher than in the UK. Other increased costs such as transport, are also likely to be factors. The effect of increased costs on retail prices multiply across the food supply chain, to the extent that activities are carried on in Jersey.

4. A second contributing factor consists of inefficiency and lack of scale economies in Jersey that appear to exist in several levels of the food supply chain. Farming is expensive in Jersey compared to the UK. Jersey's food producers and retailers are very small scale and probably do not achieve economies of scale comparable to UK equivalents.
5. Another likely contributing factor is the high market concentration levels in Jersey compared to the UK in markets for food production, distribution and retail sale. High levels of market concentrations can result in less competition and higher prices, based on actions by competitors that may or may not violate competition law.
6. Differences in consumer purchasing habits may exist in Jersey compared to the UK, and if so, they also could contribute to price differentials.

The JCRA report represents a very good discussion of the factors that could be responsible for higher food prices in Jersey. It draws on the two previous reports (Experian and Sparks) and other relevant research. Perhaps the most striking conclusion and addition to the debate is point 5. They explicitly highlight the point of supermarkets where "before April 2005 there were only three operators of supermarkets in Jersey, and with C. I Traders' acquisition of Safeway, this has been reduced to two".

The JCRA go on to state that the "UK's Competition Commission concluded that consumer choice in food retailing is adequately safeguarded when three or more supermarkets compete in a particular locality". Also that the Australian Competition and Consumer Commission has stated even more strongly that a "reduction from three large firms to two makes the emergence of cooperative behaviour almost inevitable even if the firms do not consciously seek to cooperate".

Another informative aspect of the JCRA work is the comparison of prices in the UK, Jersey and the Isle of Man. Although a relatively small sample of unbranded fresh food items was used it shows that prices "in both the Isle of Man and Jersey remain above the UK for most products, with some exceptions such as cooking apples. For most products, Isle of Man prices fall in between Jersey (the most expensive) and the UK (the least expensive)." This is of particular interest when it is combined with their views on the difference in concentration between Jersey and the Isle of Man. This is summarised below.

> *"Again comparison to the Isle of Man may be instructive. The retail food sector in the Isle of Man is less concentrated than in Jersey, traditionally having four supermarket operators (Manx Co-operative, Safeway, Tesco and Shoprite) and today having three, as a result of Shoprite's recent acquisition of the local Safeway. In contrast, Jersey traditionally has had three supermarket operators, and now only has two. The Isle of Man's reduced level of retail concentration may be a contributing factor to it having lower food prices generally than Jersey."*

Definitions

Comparison goods comprise clothing, footwear, household appliances (electric or gas), carpets, furniture, computers, books, music/videos, toys, DIY equipment, audio-visual equipment, sports equipment and leisure goods.

Convenience goods comprise food, drink, tobacco and confectionery. Outlets include bakers, confectioners, butchers, tobacconists, newsagents, fishmongers, frozen food stores, greengrocers, delicatessens, health food stores, off licences, shoe repairs/key cutting stores, and supermarkets.

Dougie Peedle
Economic Adviser
Chief Minister's Department

Mike King
Chief Executive
Economic Development Department

2 June 2006

Appendix 1: Summary of discussions with retailers, suppliers and consumers during March 2006

During March 2006, the Economics Unit and senior officers from the Economic Development Department met with a number of groups and individuals representing consumers, retailers and suppliers to discuss a number of important areas surrounding the development of the retail sector in Jersey.

The views, comments and concerns raised by those interviewed were collated to get a better picture of each group's point of view of Jersey's retail offer and its future development.

The findings are recorded under the headings of consumers, retailers and suppliers to reflect each group's particular set of views.

Consumers

Jersey retail offer

A large majority of consumers came up with the following strengths:

- Good choice in general for a small island
- Good town centre offer
- Emergence of roadside stalls and farm shops

Nearly all of them highlighted the following weaknesses:

- Lack of choice
- High prices particularly for food and clothing
- Apparent lack of competition, particularly in food retail

Some also mentioned:

- Retail offer looks increasingly more like that found in the UK
- Furniture is expensive
- Limited choice in food
- Difficulty of bringing up a family on a low income

In terms of convenience shopping, consumers shopping for families find price promotions[1] a good thing. However, older consumers find the same promotions to be useless to them.

Impact of additional retail space

As far as a new supermarket is concerned, all consumers felt that it would result in lower prices and/or greater choice of products.

[1] For example, 'Buy one get one free'.

It was generally felt that there would be no impact on the high street (as there are few convenience stores there) and little impact on small shops (as they are typically used for ‘top-up’ shopping).

A fear was expressed that a new supermarket may not source local products.

It was thought that non-food offerings, for example clothing, would not have a huge impact on current clothes retailers as they typically aim at the upper end of the market.

The consensus was that greater competition across all goods would bring benefits to them in the form of greater choice and better prices.

States approach

Consumers felt that the States should consider applications to use retail space to ensure the applicant:

- Offers something different or widens choice
- Is the right size

It was generally thought a ‘level playing field’ should apply to all.

Extent of off island shopping

Consumers stated that off island shopping is continually increasing for most goods.

Most or all mentioned some of the following methods used to shop off island:

- Internet
- Buy in bulk when on holiday
- Use family abroad to purchase and send
- Mail order

The reasons for off island shopping are:

- To save money on identical goods sold in Jersey
- To purchase something not available in Jersey

How to improve retail sector

There were many different responses offered by consumers. A summary of these are:

- Increase competition and improve the choice of product offering
- Minimise and make government intervention more efficient
- Encourage young people to stay in Jersey
- Increase diversity of job and training opportunities
- Promote entrepreneurs

- A farmer’s market

Retailers

Jersey retail offer

A large majority of retailers came up with the following strengths:

- St Helier is compact, convenient and accessible
- St Helier is special or unique
- A wide variety of goods on offer
- A number of independent businesses
- Convenience store standards high

As far as weaknesses go, a number were mentioned but none were voiced by a majority of the retailers:

- Higher prices have an adverse effect on tourism
- Restricted retail offering on Sundays
- Lack of European influence / looking more like UK
- Too many convenience stores
- Lacks delicatessen and exotic food

Impact of additional retail space

Supermarket

The common feeling of retailers as far as an additional supermarket is concerned is that:

- 100% substitution will result as people will not spend more on food
- Many of the smaller, local convenience stores will go out of business
- They will not source products locally (negative impact on suppliers)
- Danger of predatory pricing in short term
- Long run prices would be no different

Some other themes that came from some of the discussions were:

- One competitor will be forced to leave the market in long run
- Combined with the non-food offer, the high street will suffer

In terms of the scale of any new retail space in this area, it was unanimously thought any size in excess of 50,000 sq. ft. would not acceptable. Some thought some ‘middle ground’ would be acceptable. The remaining retailers felt that no additional retail space in this area was required at all. Some retailers also thought that it would be better for a new entrant to take existing space rather than new space.

Electrical goods

Retailers in this area thought the market outlook to be fairly static and that additional space would lead to displacement with little or no reduction in price.

Retailers felt there would be a limited impact on their businesses of some additional retail space. They would adapt if necessary, possibly by reducing the range they offer to best sellers only, and adopting a pricing strategy where complimentary services provided are charged separately. Smaller retailers felt that the impact would be potentially terminal for their businesses.

DIY

Retailers made similar comments in this area, referring to a static market and threat of displacement of current businesses. In addition, the concern that a new entrant may adopt predatory pricing was aired.

States approach

The main points raised by a good number of retailers were:

- No ‘special deals’ should be extended to new entrants (market forces should be left to work)
- No new retailers would benefit Jersey and so applications to the States should be turned down.

A smaller number thought it would be wrong to prevent current retailers from expanding.

A number of retailers expressed the view that competition is healthy and that if an applicant offers something different they should be allowed to operate in Jersey.

They all believed the States has a role to play in ensuring the long term effects of new retail space are considered.

Extent of off island shopping

Many comments on this topic were received. The overall opinion was that:

- The internet results in a significant amount of leakage for
    - Brown goods (such as MP3 players, digital cameras etc)
    - Books, CDs and DVDs
- Clothes are imported by many either by post or on holiday
- Convenience does not suffer a material amount of leakage
- White goods are prone to leakage as well

Barriers to new retailers

A number of common points were raised by all retailers:

- Difficult to recruit appropriately skilled staff (training normally required)
- Difficult to retain staff
- Cost of staff
- The availability and cost of land, or rentals and the onerous clauses typically included

Some other points raised by one or two retailers were:

- Size and different characteristics of the local market
- Customer loyalty
- States regulations

How to improve retail sector

A variety of views were extended by retailers on this subject. The main point forwarded is that increasing the number of tourists would benefit the retail sector.

More individual views included:

- A different clothes offering
- Relax States regulations
- Increase competition
- Support local businesses

<u>Suppliers</u>

Jersey retail offer

A large majority of suppliers came up with the following strengths:

- Large number of convenience and smaller stores
- Individuality of independent stores

As far as weaknesses go, there were no widely held views. Some suppliers identified a lack of:

- Choice in non-convenience goods
- Car park spaces in the long run
- Competition in the convenience goods market

Impact of additional retail space

Supermarket

The common feeling of suppliers is that:

- Substitution will occur between supermarkets
- They will not source local goods from them

- The supplier network behind smaller convenience shops will break down
- Supporting ancillary services will suffer as a knock-on effect
- Danger of predatory pricing in short term

In general terms, other points raised on occasion were:

- Additional retail space will have a negative impact on the high street
- No tax revenue from new entrants under '0/10'

It was felt that anything larger than a reasonable sized area (greater than 50,000 sq. ft.) would have an adverse effect on Jersey. Ideally, existing retail space should be used.

States approach

The main points identified by a majority of suppliers were:

- No 'special deals' should be extended to new entrants
- The long term consequences should be carefully considered

A minority thought that no new entrants should be allowed.

Extent of off island shopping

Suppliers generally thought that many Islanders shop off island. The following methods were suggested as examples:

- Fly to Southampton or London for greater choice
- Car trips to France for greater choice
- Use of the internet

Barriers to new retailers

In addition to costs and difficulties faced with respect to land and labour, most suppliers also mentioned that freight costs are high and timings are limited. Some mentioned the lack of Jersey to France freight options.

Cultural differences were also cited as a possible barrier to entry along with labelling, government regulations and the fact that the Jersey market is relatively small.

How to improve retail sector

The most common response was to focus on improving the retail offer to tourists. Some suggested the focus should be on 'value for money' goods. Other responses from a minority of suppliers included:

- Encourage improvement in worker skills
- Protect local industries with tariffs
- Increase competition

- Increase speed and efficiency of planning decisions in the States

<u>Meetings held</u>

Meetings were held with the following in March 2006:

Consumers
Age Concern
Jersey Consumer Council
Jersey Island Federation of Women's Institutes
Senior Citizens Association
Standing Conference of Women's Organisations of Jersey
Youth Council

And other individual consumers

Retailers
Chamber of Commerce
C I Newsagents
C I Traders
Co-op
De Gruchy
Fotosound
Genuine Jersey
Institute of Directors
JEC
Le Riches
Normans
Ottakars
Romerils
Seedee Johns
Voisins

Suppliers
Buttfield Limited
Chamber of Commerce
Easenmyne
Fox Trading
Genuine Jersey
Jersey Farmers Union
Ray Shead (French food and wine importer)

Others
Concern
Professor Leigh Sparks