Economic Affairs Scrutiny Panel

Retail Strategy (Interim) Review

Presented to the States on 27th April 2007

S.R.9/2007

States of Jersey
States Assembly

États de Jersey
Assemblée des États

Contents

(I) Glossary

General terms

CIT - Channel Island Traders

Co-Op - Co-Operative Society Limited (Channel Islands)

EDD - Economic Development Department

EDM - Economic Development Minister

EGP - Economic Growth Plan

ft^2 or sq ft – measurements in square feet

GVA – 'Gross Value Added', is measure of the value of for the Island. It is essentially the sum of wages and salaries and company profits.

HES - Household Expenditure Survey

JCOC – Jersey Chamber of Commerce

JCRA - Jersey Competition Regulatory Authority

NEF - New Economic Foundation, an independent 'think-and-do tank'. Its stated aim is 'to improve quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environment and social issues'.

Quintile – a statistical term referring to the portion of a frequency distribution containing one fifth of the total sample.

RPI - Retail Price Index, a year-on-year measure of the price of goods overall or in certain sectors

RUD - Regulation of Undertakings and Development

Technical terms for this review

Experian Property Consultancy – the firm engaged by the Economic Development Department to produce the original and revised Experian reports.

The original Experian report– the original consultant's report commissioned by the Economic Development Department to asses the amount of retail floorspace in Jersey and its performance, and to make recommendations as to future development. Published June 2005.

The revised Experian report – the revised version of the consultant's report amended in light of the comments of the Jersey Chamber of Commerce's adviser, Professor Leigh Sparks. Published December 2005.

GOAD – a system for calculating retail floorspace based on surveyors estimates, working from ordnance survey area calculations.

Multiple – a retailer with more than one retail premises. Channel Island Traders is a local multiple, Tesco is a UK multiple.

Retail Framework – 'A Framework for Managing the Development of the Retail Sector in Jersey'. A policy intended to advise the Planning and Environment Minister and the Economic Development Minister on 'the approach that should be taken in managing the development of the retail sector in Jersey'.

Retail space types- (see Appendix 4 for detailed list of goods in each category)

> **Bulky comparison retail space** – DIY, electrical, furniture/carpets
>
> **Clothing footwear** – clothing and footwear
>
> **Convenience retail space** – supermarkets and food stores
>
> **Non-bulky comparison** – books, toys, sports and leisure goods

Sparks Commentary – 'A Commentary on the Experian Report "Assessment of Jersey's Retail Sector", submitted to the Jersey Chamber of Commerce by Professor Leigh Sparks of the Institute for Retail Studies, University of Stirling, October 2005.

Sparks Further Commentary - 'Further Commentary on the Retail Sector in Jersey', submitted to the Jersey Chamber of Commerce by Professor Leigh Sparks of the Institute for Retail Studies, University of Stirling, December 2006.

Symbol Groups - an independent retailer that is effectively a member of a larger organisation known as a "symbol group operator" (such as Spar). Also known as 'fascia groups'.

Tiers- classification of retailers by size of overall operation

> **First Tier** – In the UK -Tesco, Asda, Sainsbury's, Morrisons/Safeway. Jersey has no indigenous First Tier multiple.
>
> **Second Tier** - In the UK - Marks & Spencer, Somerfield /Kwik Save, Waitrose, Iceland, Budgens, Netto, Lidl, Aldi. In Jersey Channel Island Traders and the Co-Op.
>
> **Third Tier** - In the UK - Co-op, Symbol Groups, Independents. In Jersey the Spar franchise and independent stores.

(Note that the Co-Op is often counted separately as a second tier multiple in the Jersey context.)

Undertrading/Overtrading – Retail space that is generating too little trade per square foot is referred to as 'undertrading', and this suggests that the market is weak and shops will be making too little profit per square foot. Retail space that is generating too much trade per square foot is referred to as 'overtrading', and this indicates that shops have too much business, and are making exceptional profits.

Introduction

(II) Panel membership

The Economic Affairs Scrutiny Panel is constituted as follows-

Deputy Geoff Southern (Chairman)
Deputy Alan Breckon (Vice-Chairman)
Connétable Mike Jackson
Deputy Judy Martin
Deputy Kevin Lewis

Deputy Breckon did not take part in the review but instead gave evidence to the Panel as Chairman of the Consumer Council.

(III) Review Progress

This review began on 29th January 2007, after the Panel was made aware of concerns over the Minister's Retail Framework. Public Hearings were held on 21st and 22nd February. The report was presented to the States on 27th April 2007.

(IV) Terms of reference

To examine the methodology and conclusions of the Experian Retail Assessment, in light of the differing views of the Chamber of Commerce.

To assess the impact of a new chain supermarket retailer on the Island's retail sector and consumers in light of competition issues, pricing policies and the experience of other jurisdictions.

To assess, and consult with all stakeholders on, the impact of increased retail space on the town centre and other areas.

To examine any further issues related to the Retail Strategy which may arise in the course of the Scrutiny review that the Panel considers relevant.

(V) Interim nature of the report

The Panel had originally intended to complete this report for presentation to the States on or before 5th April 2007. The unavoidable absence from the Island of the Economic Development Minister has meant that the report has instead been published at an interim stage.

This report only addresses aspects of terms of reference 1 and 2. The Panel will publish a further report to examine the potential impact on existing businesses of new entrants into the retail market, in particular with respect to plans for St. Helier and the siting of a possible new UK multiple.

Key Findings

The Experian report was so fundamentally flawed as to be "unfit for purpose". The figure produced for 'overtrading' in Jersey's convenience retail sector was 45% greater than is justified by the evidence.

The assumption that the arrival of a UK or European multiple will produce an increase in competition and a decrease in food prices ignores many of the factors operating in the Jersey market, namely:-

- The structure of retail trade
- Regional price variations
- Increased labour costs
- Comparison with the Isle of Man

Every pound spent at a locally-owned retailer is more beneficial to Jersey in economic terms than one spent at a UK multiple would be, in that

- Locally grown or supplied products are likely to be replaced by products from elsewhere.
- Centralisation of services will result in services being sourced nationally rather than locally.

The Panel finds that the Economic Development Department's Retail Strategy remains over-reliant on the flawed data of the Experian report.

The recommendations for retail growth contained in the Retail Strategy, despite being scaled down from those proposed by Experian, and supposedly incremental in nature, retain the potential to have a significant detrimental effect on the retail economy.

Recommendations

Given the cumulative defects in the analysis that has lead to the Retail Framework the Panel recommends that the Economic Development Minister suspends any action based on the strategy until he has fully re-examined the guidelines in the light of accurate data and reported his findings to the States.

1. Background

The intention of the Panel in producing this report is to analyse the effectiveness of the Economic Development Department's Retail Framework, and to attempt to asses the intentional and unintentional consequences of its implementation, against the background of the Economic Development Department's policies and responsibilities.

The Retail Framework is a policy document, and as such reflects the aims of the Economic Development Department, the primary goal of which is to grow the Jersey economy by at least 2% above inflation every year. The Economic Development Department intend to achieve this by job and wealth creation on one hand and lowering inflation on the other.

The Retail Framework offers guidance to the Economic Development Minister and the Planning and Environment Minister in respect of the maximum amount of retail space that should be permitted in the Island prior to the next review. The Retail Framework has concluded that significant additional space can be constructed with positive overall effects.

The Panel has attempted to determine if the Retail Framework will damage local businesses, lower prices to the consumer, or both. It has also examined the assumptions on which the policy is based.

The Panel was alerted to the concerns of numerous bodies representing businesses in the Island, and by evidence that suggested that best value for consumers might not lie in unbridled competition.

The terms of reference reflect that fact that the Retail Framework followed a report by Experian Property Consultancy, engaged by the Economic Development Department to determine the retail situation in the Island. Concerns were raised after an analysis of the Experian report by Professor Leigh Sparks of the University of Stirling, an expert engaged by the Jersey Chamber of Commerce. The Experian report is analysed in Section 2.

2. Experian

2.1 Background to the reports

The Experian report was commissioned by the former Economic Development Committee in 2004, at a cost of £62,500, and was intended to assess the level of retail space in Jersey, the total expenditure on-Island, and by combining these, to calculate the level of annual expenditure per square foot of retail space (sq ft). It was fully entitled ‘Assessment of Jersey’s Retail Sector – A consultancy paper prepared by Experian Property Consultancy - June 2005’.

The Department was made aware of serious concerns regarding the validity and accuracy of the Experian report by the Jersey Chamber of Commerce (JCOC), which represents the business community in Jersey.

JCOC responded by commissioning a review by Professor Leigh Sparks into the Island’s retail capacity. His report ‘A Commentary on the Experian report “Assessment of Jersey’s retail sector” was submitted to the JCOC in October 2005, suggesting that many of the assumptions of the Experian report were flawed and that the conclusions were drawn from inaccurate evidence.

The Experian report was republished in December 2005 under the same title with significant changes to the assumptions and to some calculations, based on the evidence presented by Professor Sparks.

The Economic Development Department published its policy document ‘A Framework for Managing the Development of the Retail Sector in Jersey’ (the Retail Framework) in June 2006.

Professor Sparks then produced a second critique entitled ‘Further Comments on the Retail Sector in Jersey’ in December 2006, which analysed the revised Experian report as well as the Retail Framework.

Unlike the Experian report, the Retail Framework was not revised in the light of the data from Professor Sparks.

It appeared that there was significant support both at the time of publication and during the Panel’s Public Hearings for the Chamber of Commerce’s position that not only the original Experian report had been badly flawed, but also that the subsequent amendments made to the calculations had not resulted in any changes to the recommendations.

2.2 The original Experian report

The Experian report was produced with the ultimate aim of providing an indication of how much trade was carried out in Jersey shops per square foot, per annum. This is a product of the size of the market and the amount of retail space available.

There is an ideal level of trading for all types of retail floorspace, which maximises the sales potential of any given premises but does not mean that shops are crammed and consumers suffer.

A situation in which too little trade per is generated per square foot is referred to as 'undertrading', and suggests that the market is weak and shops will be making too little profit per square foot. Too much trade per square foot of retail space is referred to as 'overtrading', and indicates that shops have too much business, and are making exceptional profits. In theory market forces should come into action, and new shops should open, although this is not always the case.

The original Experian report attempted to estimate the total market size (the amount of money spent in all shops in the island annually). It broke its estimates down into-

'Convenience' – i.e. supermarkets and food stores etc - £199.68 million

'Comparison' (excluding Bulky Goods) - i.e. books, toys, sports, leisure goods etc - £129.22 million

'Comparison' (Bulky Goods only) - i.e. DIY, electrical, furniture/carpets etc - £102.09 million

The total market size in Jersey was therefore calculated by Experian to be £430.99 million.

With the total market established, the Experian report then determined the amount of retail space available. This was based on calculations generated by Experian's GOAD system[1], which is based on surveyors' estimates of retail space based on ordnance survey area calculations.

> *"GOAD floorspace figures are based on Ordnance Survey surface area calculations and are expanded, where appropriate, to include multiple floors e.g. in department/variety stores such as Marks & Spencer, De Gruchy etc. Our approach is consistent across all GOAD plans."*[2]

As only St. Helier had initially been included in the GOAD data, Experian states that prior to the commencement of the study–

“Our team of GOAD surveyors have undertaken bespoke surveys of a number of smaller centres across the Island.” [3]

Experian estimated that there was a total of 1,272,000 square feet of retail space in Jersey, broken down as follows-

‘Convenience’ – 305,000 ft^2

‘Comparison’ (excluding Bulky Goods) – 679,000 ft^2

‘Comparison’ (Bulky Goods only) – 288,000 ft^2

By using the market size and the retail space to calculate the trading per square foot per annum in Jersey shops, the Experian report concluded that the businesses in Jersey were considerably overtrading, to the detriment of the customer. (See Section 2.3.2).

2.3 Sparks commentary

Professor Sparks analysed the original report, and concluded that it was not drawing on accurate information in many areas. He also noted some significant miscalculations in sections of the report that had nothing to do with faulty data, but were simply the result of errors in mathematical process.

Experian was made aware of the shortcomings of its report, and accordingly produced a revised report in December 2005. Many of the issues Professor Sparks raised, however, were not addressed by Experian and remained in the revised report, as detailed below.

2.3.1 Floorspace

Professor Sparks contacted retailers whose premises had been assessed by Experian to determine the actual retail floorspace of their stores. Based on this information, he identified the following incorrect floorspace assumptions[4]-

Retailer	Experian Gross ft^2	Experian[5] Net ft^2	Retailer actual net ft^2
Safeway	20,000	16,000	14,600
Checkers (Red Houses)	20,000+	16,000+	20,000
Checkers (St. Saviour)	20,000 est	16,000 est	22,000
Co-Op Grande Marché (St.	25,000	20,000	16,140

Peters)			
Co-Op Grande Marché (St. Helier)	25,000 est	20,000 est	28,620
Total	110,000	88,000	101,360

This calculation (gross to net floorspace) is intended to estimate the difference between the overall size of a retailer and the amount of space that is available to actually sell products.

These results differ from the Sparks commentary as the Panel has applied the *revised*, as opposed to the *original* Experian ratio of gross to net floorspace (see below). This results in a 13% underestimation of the size of these retailers in the revised report, rather than a conservative 11% as Professor Sparks calculated.

There has been no attempt to amend this incorrect assumption in the revised Experian report, and it appears that exactly the same assumptions about floorspace have been made, and that the correct information provided by the retailers has been ignored.

Professor Sparks also noted some errors in the overall calculations of floorspace-

> *"There is another peculiarity with the estimation of floorspace. Page 58 of the report says that Experian have converted gross floorspace to net floorspace at ratios of 1.2:1 (convenience) and 1.15:1 (comparison). However, if you do the calculation for the Experian data in Table 29, then the ratios they have used come out as 1.25:1 (convenience) and 1.175:1 (comparison). Or, to put it another way, the table understates the floorspace in these two categories (which of course exclude bulky goods as well) by c23,000 sq ft. This again inflates the Experian sales density calculations."*[6]

The revised Experian report, rather than change the figures which had originally been published, simply changed the assumptions of the ratio of gross to net retail space to match the figures. It modified the ratio to those which Professor Sparks had noted would make the final figures correct, 1 to 1.25 for convenience and 1 to 1.175 for comparison.

Additionally, the original Experian report claims that-

> *"In the context of Jersey, our GOAD data suggests that there is not a single 'Large Superstore' in the Island. The five largest grocery stores (Fresh Food Grand Marché (St Peter), Grand Marché (St Saviour's Road), Safeway, Checkers (Red Houses), Checkers (Rue des Pres) all occupy around 20,000 – 30,000 sq ft gross, but none surpass the 25,000*

sq ft net trading floorspace threshold.”[7]

This statement remains in the revised report despite the retailers, through Professor Sparks, providing information that, for instance, the Co-Op Grande Marché in St. Helier has 28,620 square feet of net convenience retail space, and was therefore above the threshold.

Overall, the Panel does not consider that the floorspace assumptions have been corrected in light of the work of Professor Sparks in conjunction with the relevant retailers. They are therefore inaccurate and distort upwards the level of retail sales per square foot, thereby providing spurious evidence in favour of increased retail space.

2.3.2 Market size

Apart from the available floorspace, the other element in the calculation of trading density is the size of the market.

Experian used the most up-to-date information available, the Household Expenditure Survey published by the Statistics Unit in 2001. Due to the complexity and size of the study, the Statistics Unit had begun collecting the data several years earlier, and the survey was actually comprised of data from 1998/99.

The head of the Unit had this to say about the use of that data-

> *“At the time that Experian started work in late 2004 and throughout 2005 we were actually still collecting data* [for the 2004/05 Household Expenditure Survey] *and as such could give them on firm date as to when we would be publishing the HES . In that situation the only data they could use was the 1998/99 HES.”*[8]

Experian weighted to the data to reflect household expenditure in 2005. The report states-

> *“We believe the figures we have derived for Jersey to be the most robust possible. We are conscious that the spend figures refer to 2004, yet we have used household figures for 2001. However, unless there has been a massive proliferation of new households over the last three years, any distortion to the spend estimates is likely to be negligible.”* [9]

This is in fact incorrect as the data actually dates from 1998/99. Nevertheless it was updated and the derived figures used to calculate the size of the market in Jersey. Professor Sparks has made the relevant calculations based on the most recent and accurate data-

Market Size Comparisons[10]

	Experian	HES 2004/5	% Difference
Convenience Retail Market	£199.68m	£144.05m	- 27.9%
Comparison Retail Market (excluding Bulky Goods)	£129.22m	£112.43m	- 13.0%
Comparison Retail Market (Bulky Goods only)	£102.09m	£107.81m	+ 5.6%
Total Retail Market Size (excluding tourist spending)	£430.99m	£364.29m	- 15.5%

Professor Sparks notes of these figures that-

> *"The figures are obviously dramatically different. This is particularly the case for convenience retailing, over which there has been most discussion about the need for further floorspace."* [11]

In light of the above the Panel is surprised that the Retail Framework should state that the Experian report has '*no changes to the data on the convenience side*',[12] and that '*the approach used in both Experian's reports to estimate capacity needs is consistent*',[13] when the figure in both Experian report are simply wrong. The market assumptions are inaccurate and distort upwards the level of retail sales per square foot, thereby providing spurious evidence in favour of increased retail space.

2.4 Experian conclusions

Both Experian reports concluded that shops in Jersey were overtrading, and recommended that new retail space be developed in order to bring the level of trading closer to 'benchmark levels'.

2.4.1 Experian calculations

The Panel believes, given the difference between the estimated and actual size of the Jersey market, that overtrading is not occurring at nearly the level suggested by Experian, if at all. The Panel has examined the figures dealing with convenience retail market as an example of this.

Experian state in their report that the UK average sales convenience density is £681 per square foot per annum, and that this figure is £829 per square foot per annum in Jersey. This is based on an assumed convenience market size of £199.68m plus £11m estimated tourist convenience retail spend, divided by 244,400 (net) square feet of convenience retail space.

If the figure is recalculated with the correct size of the Jersey convenience market, £144.05m plus £11m estimated tourist convenience retail spend, divided by 244,400 (net) square feet of convenience retail space, the result is £634 per square foot per annum, 6% less than the UK average benchmark of £681.

Experian note that the UK benchmark might even be lower-

> *"Adjusting the UK average (£681 sq ft) to exclude 'Superstores', we would expect Jersey's convenience densities to be around the £550 - £600 sq ft mark … Jersey is not far from achieving superstore-style densities, without having a single superstore in the Island … Either prices are massively inflated in Jersey or the convenience floorspace is overtrading."*[14]

Experian class a 'superstore' as a retail outlet over 25,000 net square feet, so this statement is in itself erroneous as the Co-Op Grande Marché would fit the description. Nevertheless, by this estimate, were prices in Jersey 6% higher than the UK average, the floorspace would not be overtrading by any criteria that Experian set.

That prices are higher in Jersey is not in doubt, but to state that they are 'massively inflated' is misleading as it takes not account of labour and other costs as discussed in Section 3.1.2. Therefore, by Experian's calculations, if the correct market figure is used there will be no evidence of overtrading in the convenience market.

2.4.2 Experian recommendations

The Panel was seriously concerned when its attention was drawn to the recommendations of the two reports, and the evidence on which they were based-

Experian 1 states that "*the Island requires 'a 'bare minimum' of **100,000 sq ft** of new floorspace, with 125,000 sq ft still a 'comfortable target*'". [15]
It bases this assumption on an (incorrect) calculation that Jersey retail space is "*around **£150 per sq ft (35%)** higher than benchmark figures for the UK retail sector as a whole*."[16] (Panel emphasis.)

Experian 2 states that "*the Island requires 'a 'bare minimum' of **100,000 sq ft** of new floorspace, with 125,000 sq ft still a 'comfortable target*'".[17]

It bases this assumption on an (amended) calculation that Jersey retail space is "*around* ***£10 per sq ft (2.5%)*** *higher than benchmark figures for the UK retail sector as a whole*.[18]" (Panel emphasis.)
The Panel notes that the levels of overtrading were modified by a factor of 15, but the conclusions remain identical.

Mr K. Keen responded to this anomaly at the public hearing-

> *"Shops were not 35 per cent more busy than UK shops; they were 2½ per cent busier … you can see exactly what has happened. The reason was that they had counted the space incorrectly. They had missed out some space that was in their own report … the conclusions of the report, amazingly, from being 35 per cent overtrading to 2½ per cent overtrading were exactly the same.* [Experian claim that] *we still need another 100,000 square feet, 4 Grand Marchés more or less* [of convenience retail space]*, and we need another 150,000 square feet of non-food."*[19]

The Panel cannot understand how this conclusion can possibly remain the same. If the overtrading is decreased by a factor of 15, this must have an effect on the recommendations.

This concern has been voiced on a number of occasions during the course of the review, notably by representatives of the co-op at the Public Hearing on 21st February 2007-

> *"Even though they did downgrade and correct some of the worst aberrations, they still, on much weaker data, arrived at the final conclusion and it really does beg the question: was the whole process constructed to a result that was predetermined rather than it being an objective analysis of the retail market that might guide government in terms of future policy?"*[20]

The Panel considers that a conclusion of 2.5% overtrading is well within the margins of error for a study of this type, and therefore challenges the recommendation that there is capacity for the proposed expansion.

If it had not been for the work carried out by Professor Sparks, at the cost of the Jersey Chamber of Commerce, the inaccuracies in the original report would have remained unchallenged.

The effect of the recommendations and figures contained in the Experian report on the Retail Framework are detailed in Section 5.1, as is the Economic Development Department's response to Professor Sparks.

2.5 The Panel's conclusions on the Experian report

2.5.1 Experian attainment of goals

The Experian report had four major goals-

1. To provide a comprehensive overview of the current shopping dynamics in the Island (distinguishing between the convenience, comparison and bulky goods markets).

The Panel considers that the report distinguished between the markets, but did not accurately determine their size absolutely or relative to one another. The size of retail market was initially stated to be £430.99m, £66.7m above the Household Expenditure Survey level of £364.29m. This gives an overall market miscalculation of 15.5%, with much greater variation within the sub-categories (i.e. a 27.9% miscalculation in the convenience retail market). Calculations in respect of the dynamics cannot therefore have been correct.

This criterion was not met by the initial or revised Experian reports.

2. To undertake quantitative and qualitative appraisal of existing retail provision relative to expenditure levels and latent potential.

The Panel believes that Experian underestimated the amount of retail space in the Island. In the original report their calculations did not conform to their stated assumptions, and although this was amended in the revised report, corrections to floorspace assumptions were not made despite numerous retailers providing information, through Professor Sparks, that the Experian estimates were incorrect.

These inaccuracies in the calculation of expenditure levels and floorspace compound each other, as the assumed retail space is too low and the assumed spend is too high. This gives an grossly inflated figure for sales densities.

This criterion was not met by the initial Experian report. Data provided from the Jersey Chamber of Commerce (at no cost to the taxpayer) would have allowed improvements to be made to the revised Experian report to meet this criterion, but was not included.

3. To assess the Island's capacity to absorb additional retail floorspace at both commercially and economically viable levels.

The Panel considers it self-evident that the Island's capacity cannot be estimated correctly on flawed data. As the revised Experian report has failed to correct numerous incorrect assumptions as detailed above, it cannot be a reliable estimation to inform policy.

This criterion was therefore not met by the initial or revised Experian reports.

4. To explore this potential through a series of modelling scenarios.

The Panel believes that the value of any model is limited by the accuracy of the data on which it is based. As the data input to the revised Experian report has been shown to be flawed, and the resulting assumption that the Island needs an additional 100,000 – 150,000 square feet of retail floorspace is therefore unreliable, there is little value modelling where to put this space.

Modelling scenarios were included in both Experian 1 and 2 but flawed data and stubbornly flawed assumptions render them useless in reality.

Finding

The Experian report was so fundamentally flawed as to be "unfit for purpose". The figure produced for 'overtrading' in Jersey's convenience retail sector was 45% greater than is justified by the evidence.

3. Competition

The Retail Framework is firmly based on the benefits of competition, and in particular notes the advantages of UK multiples over smaller businesses. The perceived benefits of a UK multiple are based on certain assumptions-

(a) that food is too expensive in Jersey,

(b) that food will be cheaper if a UK multiple enters the Island, and

(c) that the market will improve and become more efficient and competitive if a UK multiple enters the Island.

The competitive situation in Jersey is, like many aspects of its retail environment, comparatively unusual in a UK context.

Jersey has two major retailers operating supermarkets, Channel Island Traders (CIT) and the Co-Operative Society Limited (Channel Islands) (Co-Op). Both are locally owned, with CIT shares mostly in the hands of Channels Island residents and the Co-Op shares being held by its customers.

Alongside the two major operators are smaller retailers such as the Spar franchise and numerous independent shops engaged in general retail or selling niche products.

The revised Experian report states that-

> *"There are fundamental differences between the structures of the UK and Jersey convenience markets. On the mainland, the 'Big Four' (Tesco, Asda, Sainsbury's, Morrisons) constitute nearly 70% of the market – their corresponding share in Jersey (10%) has recently disappeared at a stroke, with ownership of Safeway passing to CIT. At the other end of the spectrum, the 'Third Tier' of retail companies (Co ops, Symbol Groups and Independents) make up just 9% of the UK market, compared with 51% in Jersey. This has a number of ramifications, especially in terms of average pricing."*[21]

The figure of 51% includes the Co-Op, although this is classed elsewhere in the Experian report as a separate multiple. It also includes 'symbol groups', which consist of independent retailers that are effectively members of a larger organisation known as a "symbol group operator" such as Spar. These are not included in the figure for totally independent retailers, which is 18.4% in Jersey compared to 3.8% in the UK.

Experian notes that '*This highlights the fundamental structural differences between the UK and Jersey convenience markets*'[22]. The Panel agrees that these differences do exist, but there appears to be confusion in respect of the effect that this has on prices. The Experian report suggests when discussing the market that-

> *"Given these significant differences in market structure, it is little surprise that there are substantial pricing differentials."* [23]

In another section of the report, while attempting to justify its assumption of market size (which would be distorted if Jersey prices were higher than the UK) the Experian report states-

> *"Having carried out some degree of pricing audit, we could not conclude definitively that goods in Jersey carry any significant price premium over the UK. …. In convenience, the picture is slightly different. Here, there may be some unfavourable price differentials, albeit not massive."* [24]

The Experian report appears to draw differing conclusions from the same data according to the case being argued. In one case it suggests that the differential is unproven, in another it suggests that it is significant. These two statements are contradictory.

Without wishing to revisit the Experian report (see Section 2) the Panel notes that despite the apparent confusion over pricing the report recommends a significant increase in retail floorspace to promote competition, based on the assumption that unrestricted competition will lower prices.

This recommendation is mirrored in the Retail Framework, which also seeks to promote competition. It notes that-

> *"Market structure, particularly in food retail is not conducive to maximising productivity in the island… 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."* [25]

The economic objectives in this case are lower inflation and increased economic growth.

The Panel does not object to competition if it can be proven that this will lower consumer prices, however neither the original or Revised Experian reports or the Retail Framework clearly demonstrate that this is in fact the case. This assumption appears to ignore the undeniably high cost of doing business in Jersey, as examined in section 3.1.

3.1 The price of food in Jersey

3.1.1 Comparative spend

Jersey receives advertisements for all UK multiple stores, and so it is apparent to all residents that that the average price in UK supermarket is lower than that in Jersey by some margin.

The assumption that people in Jersey pay more for their food than their UK counterparts is supported by the recent Household Expenditure Survey data. The average weekly household spending on food and non-alcoholic drinks is £61.70 in Jersey, and only £44.70 in the UK. Therefore a Jersey household spends £17.00 per week on average more than a UK household, totalling approximately £884.00 per year.[26]

However, the higher average wages in Jersey also affect food expenditure as a percentage of total expenditure. The latest comparative figures are[27]-

TABLE 1

	Jersey	**UK**
Lowest	£11,600	£6,900
2nd Quintile	£22,300	£14,600
3rd Quintile	£34,000	£24,500
4th Quintile	£50,000	£36,900
Highest	£85,000	£61,600

The higher wages mean that the average food expenditure of a household in Jersey is 9.7% of the total, less than the 10.3% spent on food by UK households.[28]

3.1.2 Cheaper food

There is an argument that UK multiples can offer lower prices due to the huge purchasing power and centralised distribution network that they command, as well as economies of scale.

It is also argued by the Economic Development Department that if a UK multiple were to enter the local market and offer lower food prices through this mechanism, then all consumers in Jersey would be better off, and spend would be diverted into other areas or saved, benefiting the local economy. As the Economic Adviser noted-

Mr. D. Peedle

"For example, if we all save a little bit of money on our weekly shop, we may well spend it in

another retail sector in another shop. We may well spend it somewhere else in the economy. If we bring inflation down in the Island, that improves the performance of businesses in the Island."[29]

The assumption is often made that the prices advertised by UK stores would be available in Jersey, possibility with a small 'mark-up', as is seen in the Marks and Spencer franchise.

However, No UK first tier multiple has a 'blanket' pricing scheme. The price charged will reflect any special or additional costs incurred in the operation of store, and also to a large extent the existing market and affluence of an area.

As an example, the Statistics Unit noted in 2005-

"A study by the [UK] *Office for National Statistics showed that in 2003 average prices in London were 7.6% higher than for the UK as a whole whilst those in the North East of England were 8.5% lower."*[30]

This, as Kevin Keen notes[31]- *"implies a variation of 16% between London and the North of England without considering Island factors"*.

Figures quoted in a Statistics Unit report in 2006 indicate that the maximum differential has increased slightly, from 16.1% in 2005 (as above) to 16.6% in 2006[32].

There are two possibilities to account for this price differential. Either-

(a) profitability remains constant cost and the figures represent higher costs in affluent areas, or

(b) retailers price products more highly in affluent areas.

Jersey is considerably more affluent than most areas of the UK (as noted in table 1) and has considerably higher operating costs (see below). Therefore, regardless of the explanation for the regional price differential, the cost of products on the shelves of a UK multiple in Jersey would be in the highest range of UK mainland prices, if not higher.

The cost of operating a retail business in Jersey has been considered by both Experian and Professor Sparks.

Experian suggested that -

> *"Figures from the States' of Jersey Statistics Unit show that there are significant price differentials on fresh food convenience products between Jersey and the UK. We believe this is primarily a function of the structure of the respective markets, with the major multiples in the UK more readily able to translate their superior buying power and economies of scale into lower prices."* [33]

Experian effectively discount the operating cost differential between Jersey and the UK, except to note that-

> *"Anecdotal evidence suggests that retail staff costs are slightly higher in Jersey than on the mainland, a theory supported by the fact when the minimum wage is introduced later this year, it will be 5% higher than on the mainland. At the same time, we expect any staff cost differentials to be marginal (less than 10%), rather than dramatic."*[34]

This rough estimate of staff costs is highly inaccurate, as the detailed figures for comparative labour and other costs from the Sparks Commentary show[35]-

TABLE 2

Channel Islands Co-op *versus* UK Co-op

- Customer Service Assistant +36%
- Warehouse Assistant (Fork Lift Driver) +59%

Marks and Spencer Jersey *versus* Marks and Spencer UK

- Customer Assistant +11%
- Customer Assistant Trainee +8%

Romerils *versus* BMF[36] Wages Survey (UK South-West Region)

- Range of Positions +3% to +50%
- Trade Centre Assistant +24%
- Department Manager +39%

Le Riche *versus* average of Tesco, Sainsbury and Morrisons

- Till operator – starter +22%
- Till operator – established +18%
- Wage costs per employee (Company as whole) +13%

Other estimates

- McQueen Dairy Industry Study suggests that wage costs per litre are 2x to 5x other dairies; farming labour costs 12.5% higher
- Bakery Interview Bakers' rates are 40-80% higher in Jersey than the National

Association of Master Bakers negotiated union rate

- Checkers Staff rates 25-30% higher than UK, and on forecourts 60% higher

Consultancy Solutions Report

- Petrol Market Staff on forecourts 21-30% higher than UK

Transport Sector Interview

- Drivers paid 15% higher on basic than southern UK, 60% higher cost if overtime included

These differentials far exceed the ‘5-10%’ weighting assumed by Experian. It is concerning that the flawed 5-10% assumption was retained in the revised Experian report even after Professor Sparks had made these comparative figures available.

It is clear from the figures that staff costs in Jersey are considerably higher than in comparable stores in the UK. A UK multiple, in order to maintain a profit margin, would have to set its prices at a level that reflected these increased costs.

Although this interim report will only consider staff costs, evidence has been given to the Panel that other costs are significantly higher, and these will be examined in the full report.

Consideration must be given, therefore, to the possibility that the particular circumstances of Jersey might be the driving factor in higher food prices.

3.2 Competition and the UK multiples

Both the Experian report and the Retail Framework identify additional competition as having a beneficial effect on consumer prices.

The Panel has also noted that throughout the Retail Framework the assumption is that-

> *“Where there are two players in a market there should be concerns about the effect of concentration”.*[37]

The Panel feels that the Retail Framework takes insufficient account of the fact that the non-supermarket players in Jersey account for 51% of convenience retail, compared to only 9%[38] in the UK. Independent small operators account for 18.4%, totalling almost as much as an additional multiple.

It is likely that the entry of a UK multiple into the market would affect the smaller retailers to a greater extent than their larger rivals, as has been seen in numerous UK high streets. the New Economic

Foundation argues that that the existence of the UK multiples accounts for the low proportion of surviving independent stores, which comprise only 3.4% of total UK retail.

Were the independent stores to begin to disappear, the result would not be an overall increase in competition, but rather the Island would exchange numerous small competitors for an oligopoly situation.

The discussion of choice and competition in the Retail Framework takes no account of the fact that if independent stores go out of business and are replaced by multiple premises then there will be *less* choice and *fewer* players in the market.

3.2.1 The Isle of Man situation

The Isle of Man is a good comparative example for Jersey, as it is a small island jurisdiction with many similar challenges, in which a UK multiple (in this case Tesco) began trading in 2000.

Prior to the entry of Tesco to the market, convenience retail spend in the Isle of Man was divided between 'Shoprite', (an indigenous multiple with interests in property and motor retailing), a local co-operative society and a Spar franchise.

The 'Shoprite' multiple operated 10 convenience retail stores in the jurisdiction, where it had been established since 1972. It has operated in profit for the majority of time and its primarily indigenous ownership has kept the majority of its profits locally.

In 2005, Kevin Keen noted the effect of the arrival of Tesco on this retailer-

> *"Shoprite has made a loss before tax in two of the last four years, broken even in one of them and made a profit before tax of £155,000 in 2001 (although it made an operating loss of £1.1 million in that year). Also, Shoprite has not paid a dividend to its shareholders for at least five years. This does not appear to be sustainable as without profitability Shoprite will be unable to reinvest or provide a return to its shareholders for capital supplied and risk taken."*[39]

Since then its situation has not improved. The latest statement from the Chairman in 2006 was that-

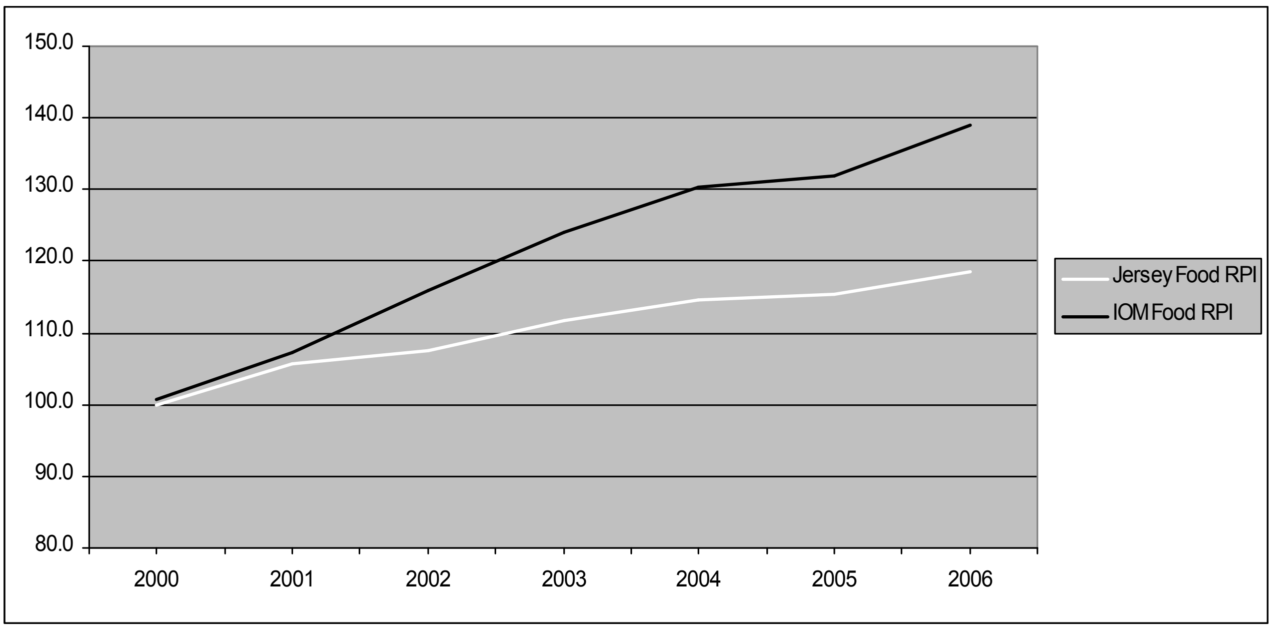
> *"After deduction of net interest payable, the Group incurred a loss on ordinary activities before taxation of £254,000 … I do not believe that it is possible to anticipate any easing of the competitive pressures within the Island's grocery market."* [40]

This appears to the Panel to illustrate the potential dangers of inviting a UK multiple into a small jurisdiction, in that the Isle of Man may be about to exchange a locally-owned multiple for a UK multiple with no overall increase in the number of market players.

The assumption underlying the Retail Framework that the arrival of a UK multiple will inevitably increase competition and therefore lower prices is contradicted by events in the Isle of Man. As the graph below shows, the food prices have risen more quickly in the Isle of Man than in Jersey-

TABLE 3

Jersey and Isle of Man food-only Retail Price Index 2000-2006



The Panel acknowledges that his food price rise may be due to external factors, and is conscious that the food prices in the Isle of Man generally start from a lower baseline. However, this increase in prices has taken place at a time of aggressive competition between Tesco and Shoprite. Were the indigenous multiple to collapse (as appears likely) then Tesco would be the only major player in the Isle of Man and this may cause food prices to rise more steeply as Tesco could attempt to maximise its profit in the absence of supermarket competition.

3.3 The Jersey Competition Regulatory Authority

The Panel does not seek to make an in-depth analysis of the powers of the Jersey Competition Regulatory Authority (JCRA) in this report. it is, however worth noting briefly their remit and scope.

The JCRA has responsibility for promoting competition and consumer interests through economic regulation and competition legislation.[41] The JCRA detail the following powers under the Competition

(Jersey) Law 2005-

- arrangements between undertakings that hinder competition, or are intended to do so, e.g. agreeing to fix prices, limit production, allocate markets or customers, or bid rigging;
- the abuse by one or more undertakings of a dominant position in a market; and
- certain mergers and acquisitions, unless the prior approval of the JCRA is obtained.

The JCRA therefore would have no remit to act if a UK multiple were to enter the Island by the purchase of an existing operator, as this would not change the number of competitors in a market. Neither would it have any remit in the event that a UK multiple constructed a new premises, as this would be seen as an increase in competition. Were a UK multiple to seek to construct a new store in Jersey, however, it would be subject to both planning and Regulation of Undertakings and Development approval.

Were a UK multiple to move into Jersey and seek to acquire additional retail outlets from independent owners, or to obtain a monopoly by acquiring the local multiples or their outlets, the JCRA would be in a position to decide whether or not this represented a reduction of competition in the Island, and if this represented harm to consumers, to act.

The UK has seen the rise of ‘first-tier’ multiples cause the collapse of local independent businesses. 18.4% of businesses in Jersey are still independent, compared to 3.8% in the UK, and this can be attributed in part to the current absence (and historic relative absence) of large multiples.

If a UK multiple were to enter the Island, and, as in the UK, cause the collapse of small independent retailers, there would be a *de facto* reduction in the number of operators in the market, with consequent effects on the level of competition, but the JCRA would have no powers to act unless it could determine that the effects were due to anti-competitive behaviour by the multiple, as detailed in the competition (Jersey) Law 2005.

The Panel believes that the protection that can be offered by the JCRA in such circumstances is extremely limited.

Finding

The assumption that the arrival of a UK or European multiple will produce an increase in competition and a decrease in food prices ignores many of the factors operating in the Jersey market, namely

- The structure of retail trade
- Regional price variations
- Increased labour costs
- Comparison with the Isle of Man

4. Secondary benefits of local operators

There are certain concerns about the methods by which the UK multiples obtain economies of scale. The two ways in which they can maintain low prices are-

(a) the centralisation of services, and

(b) obtaining cheaper supplies through superior purchasing power.

4.1 Centralisation of services

The centralisation of services involves removing non-retail elements of supermarket operation to regional or central hubs, while also providing in-house' some services 'that smaller retailers would have to outsource or do without. These include dedicated legal services, some management operations, accountancy, distribution, public relations, advertising, insurance etc.

In its submission to the Panel, the Co-Op notes that it uses numerous local services, many of which would be centralised in the case of a UK retailer-

Accountancy	Surveyors	Legal	Recruitment	Stationary	Printing
Signwriting	Training	Distribution	Wholesalers	Insurers	Public Relations
Advertising	Vehicles	HR Consultancy			

The transfer of business from this local operator to a UK multiple would result in money that currently flows into companies operating in Jersey leaving the Island. This would have a 'trickle-down' effect on the profitability of local firms and the wages paid to their staff, with consequent tax implications.

Currently, local multiples have all of their management and administrative operations in Jersey. These represent well-paid productive jobs. Were a percentage of retail spend to leave local multiples and instead benefit a UK multiple, it is likely that there would be contraction in the size of the local operator in reaction to lower income. Jobs would be created in the UK multiple, but these would include proportionally less high-value jobs as a significant proportion of the necessary operations would be carried out in the UK.

The more highly paid jobs contribute more to the 'Gross Value Added' (GVA), a measure of the overall wealth, of the island. As there are only so many jobs that can be accommodated in Jersey, due to the population size, the impetus is to create or maintain high-value jobs on the Island. The Economic

Growth Plan states that-

> *"In a small Island economy with a limit on the amount of labour that can be utilised it is even more important to maximise the contribution of every person in employment"*[42]

Any analysis of the effect of a UK multiple would therefore have to take account of this negative effect.

4.2 Local products

in relation to point (b), above, the UK multiples can also access cheaper supplies than their local equivalents. The local businesses that have contributed to this review have stressed that one of the major differences between independent small retailers and large multiples is their purchasing policy. While independents have to be satisfied with the cheapest available reliable supplies, large stores tend to manufacture artificially beneficial deals for themselves with supplier by the use of their cash flow and purchasing power.

Experian noted that –

> *"We believe* [the price differential] *is primarily a function of the structure of the respective markets, with the major multiples in the UK more readily able to translate their superior buying power and economies of scale into lower prices."*[43]

The diseconomies of scale and high cost of operation of Jersey businesses are likely to create a situation in which the local suppliers will not be able to meet the demands of a UK multiple retailer in terms of guaranteed volume delivery and price. This will make it likely that a UK multiple would seek to purchase all goods, even those currently produced locally, from overseas, resulting in a shift of purchasing by consumers from local to non-local produce.

As an example of the difference that this would make, the Co-Op sells the following locally sourced products-

Milk	Honey	Fruit	Vegetables	Eggs	Ice cream	Cards
Cakes	Herbs	Wine	Yogurt	Flowers	Plants	Calendars
Bread	Fish	Sandwiches	Preserves	Books		

While the Marks and Spencer's franchise (operated by CIT) sources from central distribution and therefore sells the following local products-

Milk

The Panel believes that incoming UK multiple would conform more to the Marks and Spencer model than to the Co-Op model. Money would then leave the local economy and imports would increase. It could also result in local suppliers becoming insolvent in some cases.

Finding

Every pound spent at a locally-owned retailer is more beneficial to Jersey in economic terms than one spent at a UK multiple would be, in that

- Locally grown or supplied products are likely to be replaced by products from elsewhere.
- Centralisation of services will result in services being sourced nationally rather than locally.

5. Retail Framework

As stated above, the Retail Framework is policy guidance for the Economic Development Minister and the Planning and Environment Minister regarding the permissible development of retail space in the Island.

Several of the key points of this policy are reproduced below[44] -

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 ft^2 for convenience 40-50,000 ft^2 for bulky comparison 15-25,000 ft^2 for clothing/footwear 20-30,000 ft^2 for other non bulky comparison
5.	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’.

This policy was published on 2nd June 2006.

5.1 Relationship to the Experian reports

The Retail Framework suggests that it "*draws on the range of recent research on the Jersey retail sector*"[45]. The recent research to which it refers appears to be the original Experian report, the criticism of Professor Sparks on that report, and the later revised Experian report.

The Retail Framework deals with some of the 'inconsistencies' in the Experian reports raised by Professor Sparks at length. The Panel is concerned that the Economic Development Department has defended the Revised Experian report to such a large extent as it has included its key assumptions within the Retail Framework.

Despite the detailed defence of the Revised Experian report in the Retail Framework, at the Public Hearing of 22nd February 2007 officers of the Department were keen to distance the Retail Framework from the Experian reports-

> ***Mr. D Peedle***
>
> *"The Experian Report … was one of the reports that were considered in terms of drawing up that framework. If you read the report, which I am sure you have, at no point does it say this quantum* [of additional retail space] *is related to the capacity study Experian did."* [46]
>
> ***Mr. M. King***
>
> *"The things underlying the framework have not really been questioned. What has been questioned is the Experian Report. We are well aware of that and therefore, and framework is not based on that."*[47]

The Department seems quite clear that the recommendations for additional retail space in the Retail Framework are not based on the discredited Experian report.

As outlined below however, the Panel is unconvinced that this is in fact the case. Although most of the figures in the Retail Framework are not referenced, and there is no indication where some of them have been drawn from, both the floorspace and market size data in the Retail Framework appear to be dependent on the Experian reports.

5.1.1 Floorspace

The floorspace data *does* appear to have come from Experian, as the Retail Framework notes-

> *"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."*[48]

So the Retail Framework contains the convenience floorspace figures from the revised Experian report. The Panel notes that the convenience figures in particular have been challenged by Professor Sparks. The Retail Framework in general refers to the possible margins of error in any assessment of this type, suggesting in respect of total floorspace that *"the data is an estimate and as such there will be a margin of error on both sides."*[49]

The Retail Framework also challenges the assertion from Professor Sparks that the Experian report underestimates the available retail space, based on evidence provided by retailers that the five largest convenience retail premises had been underestimated in size by at least 11%. Only the Experian data, and not the data from Professor Sparks, is reflected in the Retail Framework floorspace assessment.

The Retail Framework addresses this concern by noting that-

> *"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."*[50]

The Panel considers that an inaccuracy of at least 11% in the assessment of the five largest retail outlets in the Island to constitute good evidence for systematic underestimation, which substantially undermines any conclusion that additional retail space is required.

5.1.2 Market size

The Retail Framework contains no details of its estimation of the size of the retail market in Jersey, and the only references to this subject are made in relation to the effects of new retail space.
The Retail Framework justifies the Experian report estimation of retail spending, noting that while the data may not be totally accurate it is not certain that the estimate is to high, 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".*[51] This is of course not the case. Based on the now available Household Expenditure Survey, referred to in Section 2, the estimate is clearly too high. It is therefore completely unreliable for any estimations of extra retail space.

The Economic Development Department's estimation of market size as contained in the Retail Framework can be determined from its assessment of maximum possible supermarket sales-

> *"£75m a year – about 35% of the convenience market in Jersey."* [52]

At another point it alludes to the size of the bulky goods market-

"£25m which would equate to about 25% of the [bulky goods] *market."*[53]

The above figure produce by extrapolation[54] the following results, the £214m per year for the convenience retail market in Jersey, and £100m per year for the bulky goods market [55]

The Panel accepts that these figures are approximate. However, there are, to the Panel's knowledge, only two calculations of current retail spend in Jersey, the revised Experian report, and the Household Expenditure Survey, used by Professor Sparks. Of the available figures, the £214m convenience and £100m bulky goods markets detailed in the Retail Framework correlate most closely with the Experian data, which assess the Jersey convenience retail market at £199.68m, and the bulky goods market at £102.09m. The Panel assumes, although it is not stated, that the Economic Development Department have added Experian's estimate of £11m tourist convenience retail spend to the convenience total. Without this addition the figure would be £203m.

Professor Sparks, with access to the most recent data, the Household Expenditure Survey 2004/5, has established that the convenience retail market in Jersey is in fact only £144.05m, 27.9% less than Experian calculated, and in the region of 30% less than the figure used in the Retail Framework.
The Household Expenditure Survey values the bulky goods market at £107.81m, and the Panel notes that the Retail Framework figure of £100m is fairly accurate, although it is still closer to the Experian estimation than the correct amount.

The Retail Framework therefore significantly overestimates the size of the local retail market.

The effects of UK multiple entering the Island were calculated in the Retail Framework using these flawed market assumptions. The actual proportion of the Jersey convenience market of £144.05m taken up by the estimated £75m expenditure would be 52%. This is a significant proportion of the market and indicates the problems that could be caused by relying on a policy that was formulated before up-to-date evidence on market size was available.

The Retail Framework does, however, recognise that the issues will be solved, noting *that "the only way to be sure* [of market size] *will be to see the next set of household expenditure data when it is available later this year."* The data was in fact available a short while later, and revealed that the Revised Experian report had overestimated the convenience market by £55 million, and the Retail Framework appears to have overestimated it by approximately £60 million.

The Retail Framework comments on this possible miscalculation of market size-

"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."[56]

The Panel considers that this misses the point, in that if the impact of a UK multiple were relatively larger due to the smaller market, then the damage done to its competitors would be even greater, and as previously argued would result in an even greater loss of indigenous competition. Given the discussion in Section 4 of the benefits of spending through local companies, and given the propensity of UK multiples to reduce the independent sector with their ability to offer significant short-term price reductions, the Panel considers that any benefit in terms of choice and price might be short-lived.

The net loss to the island would be compounded by the tax losses due to the different treatment of local and overseas companies under the 0/10 tax arrangements.

5.1.3 Conclusions

The Retail Framework attempt to deal with the concerns, and one passage asks rhetorically-

"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 per sq ft to £320 per 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?"[57]

The justification given for maintaining a recommendation of 150,000 square feet to 200,000 square feet additional retail space in the light of a change in retail overtrading from 35% to 2.5% is that Experian used different figures to calculate what constitutes the baseline of comparison retail spending in the UK. The benchmark, according to the Economic Development Department, was dropped from £350 to £300 per square foot. This allowed Experian to increase their estimation of the business that could be removed from existing retailers, and thereby avoid lowering their floorspace recommendations.

Furthermore, Experian increased their estimation of market growth from the 0 to 5% range to the 10 to 15% range. The result was that the recommendations could remain unchanged.

The Panel is concerned that the revised assumptions fit exactly with the original conclusions. If there was justification for the benchmark figure being lowered, and the market growth being increased, then this should have been included in the original report. However, it was not until the increase in retail space was challenged that the revised figures were included.

The Panel considers that this is an example of the desired conclusions requiring amendments to the assumptions made in relation to the data, rather than being drawn from evidence.

5.2 Effects of the Retail Framework

5.2.1 Applications

Although the Retail Framework determines the level of acceptable retail space generation, it does so over a five year period with no preference for the form which that space might take, be it corner shops or a UK multiple.

Therefore it would be possible for a new single development to occupy the entire permissible convenience retail space, and to have additional space dealing with comparison goods. This would have a very different effect on the surrounding area in commercial terms than if the space was occupied by, for instance, farms shops.

The only barriers to the arrival of a UK multiple are therefore the planning process in terms of siting, and the Regulation of Undertakings and Development in terms of employment.

The Retail Framework seeks to influence both of those processes. As it is guidance to the Economic Development Minister and the Planning and Environment Minister, it will affect their decisions to the extent that they are required to act in the benefit of the Island. The Retail Framework states clearly that-

> *"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."*[58]

If Ministers are operating under the assumption the Island would benefit from the retail space detailed in the policy, then as they consider Regulation of Undertakings and Development or planning applications on a case-by-case basis and in light of current policy, they could permit construction or employment that would otherwise have been rejected.

Additionally, the Panel is concerned that despite the apparently 'phased approach' taken in the Retail Framework, it contains no provisions to avoids the entire quota of retail space of a given type from being constructed in one building. It does state that new retailers will 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."[59]

Given the intended extension to the Checkers supermarket at Rue des Pres, however this would allow the construction of a 44,000 sq ft UK multiple, even if no 'specific need' could be proven.

Findings

The Panel finds that the Economic Development Department's Retail Strategy remains over-reliant on the flawed data of the Experian report.

The recommendations for retail growth contained in the Retail Strategy, despite being scaled down from those proposed by Experian, and supposedly incremental in nature, retain the potential to have a significant detrimental effect on the retail economy.

Recommendation

Given the cumulative defects in the analysis that has lead to the Retail Framework the Panel recommends that the Economic Development Minister suspends any action based on the strategy until he has fully re-examined the guidelines in the light of accurate data and reported his findings to the States.

6. APPENDICES

6.1 APPENDIX 1 - Examples of Retail Classifications

Comparison Goods include

Clothing Retailers
Footwear
Health, Beauty & Cosmetics
Opticians
Books
Photographic /Optical goods
Bicycles / Prams
Jewellery, Clocks, Watches
Leisure / Recreational goods
Florists / Gardening supplies
Pets & Pet supplies
Large Mixed durable shops
Other mixed durable shops
Leather goods
Children’s clothing
Sports clothing & Equipment
Musical goods
Telephones & Mobile phone
Souvenirs & Gifts

‘Bulky’ Comparison Goods include-

D.I.Y. Materials
Hardware, ornamental goods
Electrical goods
Soft Furnishing
Floor Coverings
Furniture
Antiques

Note that different definitions of ‘bulky goods’ are used for different purposes.

Convenience Goods

Large and Small Food Stores
Specialist food stores
Butchers & Poulterers
Fishmongers
Greengrocers
Bakers
Newsagents
Off Licenses
Chemists
Card Shops

6.2 APPENDIX 2 - Call for evidence

The call for evidence

Economic Affairs Scrutiny Panel

Would you like a new supermarket in St. Peter?

The Economic Development Department has developed a retail strategy based on a report publish the consultants Experian, recommending the development of a new chain supermarket store near airport. They say it could be Tesco, Asda or Sainsbury.

Will this destroy local businesses or lower prices to consumers?

Will this increase customer choice or make Jersey another UK ‘clone town’?

Will this create news jobs or force local businesses to cut staff??

Will this help local business or destroy the town centre?

With the waterfront to be built, haven’t we got enough retail space?

If you have an answer to any of these questions, or any opinion on the subject, then get in touch wi Scrutiny Panel at - Scrutiny Office, States Greffe, Morier House, St Helier, JE1 1DD or

e-mail ‘scrutiny@gov.je’ or

Fax: 441077

Requests to present evidence in person at a Panel hearing without an accompanying written submission should also be through the Scrutiny office before the closing date for evidence.

All written and oral submissions will be uploaded to the Scrutiny website as a matter of course with the exception evidence received under a confidential or private agreement which in accordance with Jersey Data Protection legi will not be released into the public domain.

The following call for evidence was published in the Jersey Evening Post on 5th, 6th, and 7th February 2007.

This was based on the original Experian recommendation, which the Economic Development Department policy has not ruled out. It generated over fifty responses from the public, roughly divided between those in favour and those against.

These are available at www.statesassembly.gov.je/scrutiny, under the Retail Strategy Review.

6.3 APPENDIX 3 - Public Hearings

The Panel held Public Hearing as follows-

Wednesday 21st February

6.00pm Deputy Alan Breckon - Chairman of the Jersey Consumer Council

7.30pm Allan Smith - Managing Director of the Channel Islands Co-Operative Society

Thursday 22nd February

4.30pm Bill Brown - Executive Director, JCRA

6.00pm Mike King – Chief Executive Officer, Economic Development Department
Dougie Peedle – Economic Advisor

7.30pm Kevin Keen - President of the Chamber of Commerce

the Panel had hoped to be able tom interview the Economic Development Minister on this subject, but was not able to do so due to his unavailability.

Transcripts of the hearing and submissions from interested parties and members of the public are available at www.statesassembly.gov.je/scrutiny, under the Retail Strategy Review.

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[1] Experian says – "In 1965 Chas E Goad was commissioned by the DTI to produce plans of over 1000 shopping centres in the UK, showing the physical layout of the town centre together with details of the occupiers and their line of business. This marked the birth of the Goad Plan,." www.experianbs.com/GOADHome.asp

[2] Revised Experian Report p 27

[3] Revised Experian Report p 28

[4] Professor L Sparks, A Commentary on the Experian Report, p15

[5] Calculated using the 80% ratio detailed in the revised Experian report

[6] Professor L Sparks, A Commentary on the Experian Report, p15

[7] Revised Experian report p61

[8] Email correspondence with Mr D Millard, Head of Statistics Unit 26th February 2007

[9] Revised Experian report p16

[10] Professor L Sparks, A Commentary on the Experian Report, p9

[11] Professor L Sparks, A Commentary on the Experian Report, p10

[12] Retail Framework p18

[13] Retail Framework p18

[14] Revised Experian report p 61

[15] Original Experian report p5

[16] Original Experian report p8

[17] Revised Experian report p5

[18] Revised Experian report p8

[19] Mr K Keen, transcript of public hearing 22nd February 2007 p3

[20] Mr J Hopley, transcript of public hearing 22nd February 2007 p5

[21] Revised Experian report p8

[22] Revised Experian report p61

[23] Revised Experian report p105

[24] Revised Experian report p22

[25] Economic Development Department, Retail Framework p7

[26] Data from Statistics Unit, Household Expenditure Survey 2004/5 p94

[27] Statistics Unit, Household Expenditure Survey 2004/5 p 93

[28] Statistics Unit Household Expenditure Survey 5004/5 p94

[29] Mr D Peedle, transcript of public hearing 22nd February 2007 p23

[30] Statistics Unit, Comparison of consumer prices in Jersey and the UK: June 2005 p2

[31] Mr K Keen, Tesco the right thing for Jersey 2005 p52

[32] Statistics Unit, Comparison of consumer prices in Jersey and the UK: June 2006 p2

[33] Revised Experian report p9

[34] Revised Experian report p11

[35] Professor L Sparks, A Commentary on the Experian Report, p22

[36] Builders Merchant's Federation

[37] Economic Development Department Retail Framework p7, see also p1.

[38] Revised Experian report, p8

[39] Mr K Keen, Tesco the right thing for Jersey 2005 p61

[40] Shoprite Group P.L.C., Interim Report for the 28 weeks ended 15 July 2006, Chairman's Statement

[41] See JCRA homepage - www.jcra.je

[42] Economic Development Department, Economic Growth Plan p20

[43] Revised Experian report p9

[44] Economic Development Department, Retail Framework p2

[45] Economic Development Department, Retail Framework p1

[46] Mr M King and Mr D Peedle, transcript of public hearing 22nd February 2007 p11

[47] Mr M King and Mr D Peedle, transcript of public hearing 22nd February 2007 p16

[48] Economic Development Department, Retail Framework p11

[49] Economic Development Department Retail Framework p17

[50] Economic Development Department, Retail Framework p17

[51] Economic Development Department Retail Framework p16

[52] Economic Development Department, Retail Framework p10

[53] Economic Development Department, Retail Framework p10

[54] The Panel is aware that extrapolation from percentages is not the ideal method by which to determine the estimation of market sizes within the Retail Framework, but has found this the only means as the Retail Framework does not clearly state its estimation of local market size.

[55] 75,000,000 / 0.35 = 214,285,714 and 25,000,000 /0.25 = 100,000,000

[56] Economic Development Department Retail Framework p12

[57] Economic Development Department Retail Framework p18

[58] Economic Development Department Retail Framework p3

[59] Economic Development Department Retail Framework p2