

# OUTLOOK



VOL 1. ISSUE 1.

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# RETAIL

## CONVENIENCE STORES

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IRISH RETAILING: THE CHALLENGES  
AND THE OPPORTUNITIES

**PLUS** Getting Ready for SEPA:  
What Your Business Needs to Know.

in association with

 **RGDATA**  
LOCAL SHOPS - LOCAL COMMUNITIES







# Supporting Irish Business

Welcome to the first in a series of AIB sectoral reports, starting with the Irish retail convenience sector. Over the coming months, these reports will examine and analyse the key issues affecting particular sectors within the Irish economy, offer expert guidance and opinion from key stakeholders and provide some helpful insights into how AIB is working to support the growth of these sectors.

An important dimension of these reports will be the specially commissioned in-depth research into each of the sectors. This valuable research, which will be carried out by Amárach Research, will shine a light on the burning issues within each sector and the dynamics underpinning them. They will also include the views of leading industry experts.

The insights gained from the research will also allow AIB to develop flexible and innovative financial solutions for its customers. AIB is wholeheartedly committed to the Irish SME sector and it understands the important role small and medium sized businesses play in the social and economic fabric of every city, town and village in Ireland. Indeed, AIB has been to the fore in developing meaningful financial solutions for a wide range of large and small customers operating in a variety of different sectors over the past few years.

The bank also understands that its customers ultimately want simple, effective and innovative technology-driven solutions that ultimately make it easier and more efficient for them to conduct their day-to-day banking affairs. These include point-of-sale payment solutions, online banking, contactless payments and e-commerce solutions.

In a lot of the national debate about the Irish banking industry over the past few years, one key fact has often been overlooked – Irish banks need to lend to the SME sector if they are to survive and thrive. Indeed, the fortunes of the banking system in



**KEN BURKE, HEAD OF AIB BUSINESS BANKING**

Ireland are inextricably linked to the fortunes of the wider economy. For AIB, our success as a bank in the future, is very much tied to the success of our customers.

The first report focuses on the Irish retail convenience sector and the hugely important role it plays in every town and village throughout the country. AIB has partnered with both Amárach Research and the representative organisation for Irish retailers, RGDATA, in compiling the research. We have also drawn upon the expertise of a number of leading retail experts, who have provided their own thoughts and insights into the challenges and opportunities the sector faces.

There are clear messages in this report for retailers, the Government and the wider banking industry in Ireland. For its part, AIB is committed to helping address the key findings, strengthening its relationships with retail customers and working with customers to ensure that the Irish economy returns to growth again.

I hope that you find the report interesting and useful.

**KEN BURKE**  
**HEAD OF AIB BUSINESS BANKING**



# THE VIEW FROM THE SHOP FLOOR

IT'S BEEN A DIFFICULT FEW YEARS FOR THE INDEPENDENT RETAIL SECTOR IN IRELAND. HOWEVER, NEW RESEARCH CARRIED OUT BY AMÁRACH RESEARCH, ON BEHALF OF AIB, IN ASSOCIATION WITH RGDATA, POINTS TO A NUMBER OF POSITIVE TRENDS EMERGING THAT WILL ULTIMATELY BENEFIT THE SECTOR

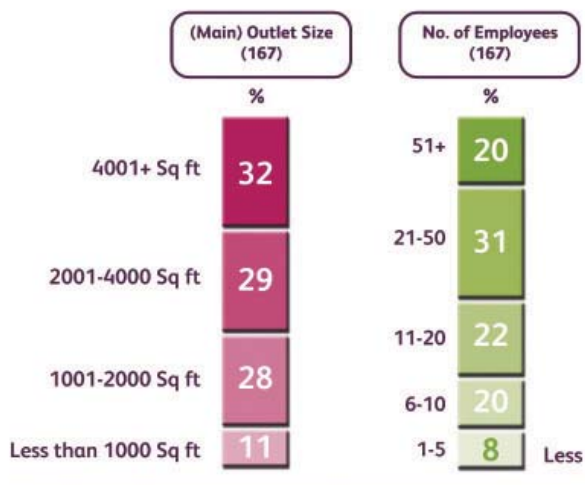
Irish retailers have been in the frontline of Ireland's economic woes over the past few years. With retail sales down by 17% since 2007, it is not surprising that many retailers are still finding the going tough.

New research carried out by Amárach Research, on behalf of AIB, sheds some light on the thoughts of Irish retailers and the trends that have emerged in the Irish retail landscape. As part of the research, AIB worked with the retailers' representative organisation RGDATA to conduct an online survey of independent retailers in February

2013 and a total of 167 retailers around the country participated in the confidential survey. The findings of the research point to a new dynamic within the independent retail sector with almost half (49%) of those surveyed expecting a recovery for their business within the next 1-3 years while the balance, 51%, expected that it would be at least five years before a recovery would be felt.

When it came to the wider economy, however, less than 5% of those surveyed expected an improvement in Ireland's economic fortunes within the next year, while 65% of those >>

## BIG STORES AND BIG STAFF







## ► AIB / AMÁRACH RESEARCH SURVEY

surveyed reckoned that it would take at least five years.

The research highlights the importance of the independent retail sector to local economies around the country and the sector is often the largest employer in many local communities. Indeed, half of those surveyed (51%) employ 20 or more staff while 20% employ more than 50 staff. Only 28% of those surveyed employ less than 10 staff, according to the survey.

In terms of the size of their outlets, approximately 30% are in excess of 4,000 sq

ft, while another 29% are in excess of 2,000 sq ft, a good reflection of the scale of many independent retail operations around the country.

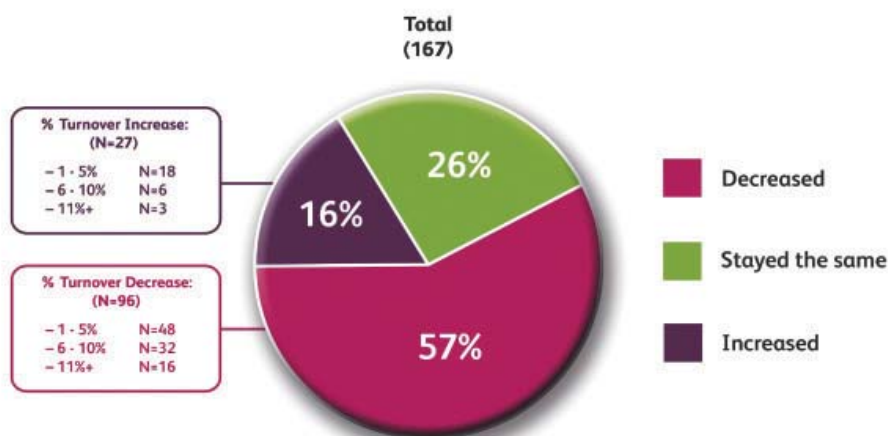
### A SMALLER PIE

Although the worst may be over for Ireland's economy, it doesn't necessarily mean that things are getting better. Indeed, many retailers find themselves competing for a

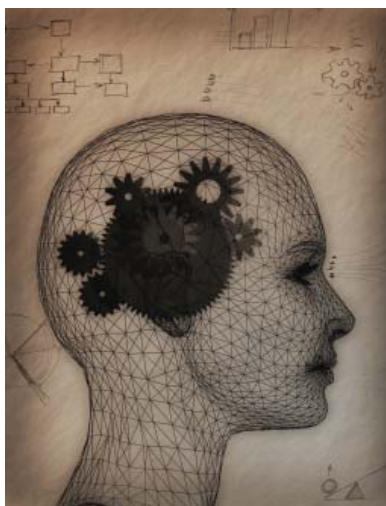
share of an economic pie that is not growing. Not surprisingly, the research shows that 57% experienced a decrease in turnover between 2011 and 2012, while just 16% reported an increase. The balance, 26%, reported turnover levels that remained unchanged between 2011 and 2012.

In the absence of an increasing top line, it is no surprise to see increased pressure on the bottom line for most businesses and the survey shows that 23% felt that the reduction in profit margin was the main concern facing retailers. This was closely followed by wage

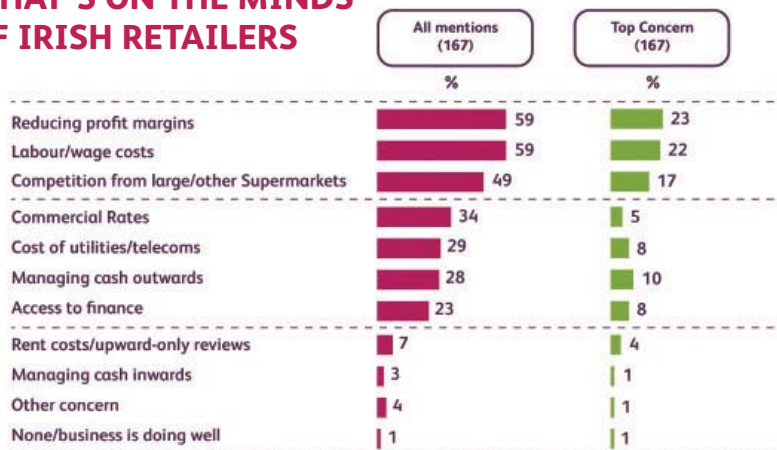
### THE PRESSURE ON SALES



Many retailers find themselves competing for a share of an economic pie that is not growing.



### WHAT'S ON THE MINDS OF IRISH RETAILERS





costs (22%) and competition from larger outlets like the larger supermarket chains (17%). Other top concerns included managing cash (10%), rising utility costs (8%) and access to finance (8%). >>

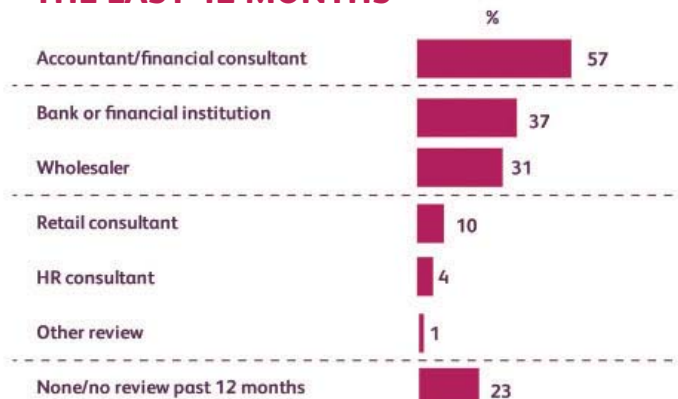
## RETAIL INSIGHT

There's no 'fat' left to cut out from any retail operation. Retailers are now responding to a new consumer landscape by looking to different ways of working in the future – advised by their accountants and bankers – whether in terms of consolidation, smart investment and/or changing work practices (e.g. more owner-manager involvement).

Cost pressures remain a key concern for many retailers – from rates to utilities to labour costs – which means that policy makers (national and local) must carefully assess the impact of any changes likely to increase costs further.

A return to growth will provide some relief - but in the meantime retailers will have to remain competitive on price, but compete more explicitly on service, quality and their key role as 'local heroes'.

## FINANCIAL REVIEWS OVER THE LAST 12 MONTHS



There's no 'fat' left to cut out from any retail operation.

Retailers are now responding to a new consumer landscape

## RETAIL INSIGHT

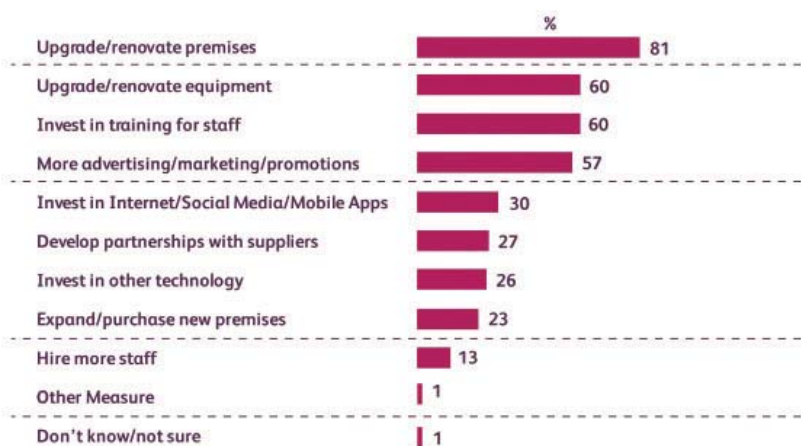
Retailers are keen to switch from survival mode to thriving mode, and they know they can't just keep on doing the same things.

Many retailers are already experimenting with new ways of engaging with customers and suppliers by combining the best of the 'new' (social media) and the 'old' (helpful customer service). The

winning formula will be the one that gets the balance right.

Innovation is not all about technology, it can include targeted sponsorships that reinforce the position of retailers in their communities, and forging explicit bonds with local entrepreneurs, farmers and 'foodies' to surprise and delight customers with a regularly changing shopping experience.

## INVESTMENT PRIORITIES





## ► AIB / AMÁRACH RESEARCH SURVEY

### RESILIENCE & GROWTH

The Amárach Research survey shows that retailers have also seen many changes in customer behaviour over the past few years. The key changes include buying more items on special offer (72% of retailers strongly agree) and shopping around more between stores (60% strongly agree).

At the same time, slightly more retailers are seeing customers visit their stores more

often (45%) than those seeing fewer visits (39%). This partly reflects consumer desires to control their spending, and to manage it carefully through the week by spreading out their spending and visits. But it also represents an opportunity for retailers to get to know their customers better, to reinforce loyalty and to persuade them to spend more in their store than in competing stores.

These general observations are consistent with research published by the National Consumer Agency, which shows that price is the number one factor in deciding where to carry out the main grocery shop. The same

NCA report showed that 2 in 5 consumers claim to always shop around/compare prices between stores (Source: [www.nca.ie](http://www.nca.ie)).

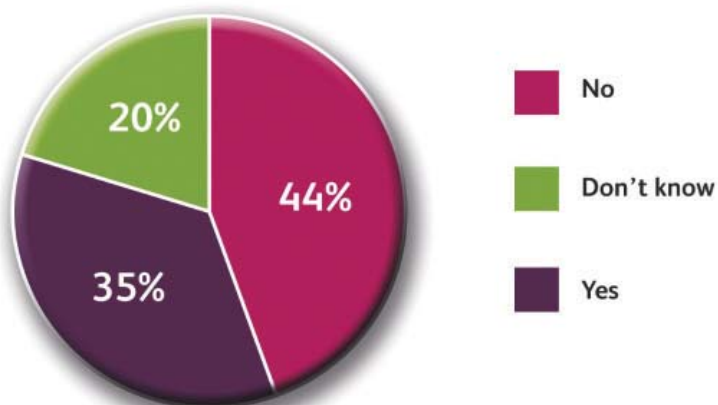
Retailers have responded to these trends through a variety of methods, including reducing the number of floor staff as a way of cutting costs (66%), discounting (60%) and reducing the range of products in stock (35%).

But such measures – although prudent in the short run – are not conducive to growth

### HOW RETAILERS INTEND TO FINANCE EXPANSION



### WILL RETAILERS SEEK FINANCE OVER THE NEXT 12 MONTHS?





in the long run. Below certain thresholds, reducing staff levels and product ranges risks undermining the shopper experience to the point where they don't come back, no matter how low the prices.

Retailers know this and so many are testing and developing new ways of winning, keeping and growing their customer bases. The focus is on improving the top line as well as the bottom line. The former entails better customer service, wider range of products and responding to demand for new products

and services. The latter – the bottom line – entails judicious increases in margins for products and services where prices may have been cut too far and/or demand is picking up strongly. Other bottom line improving measures include smarter partnerships with suppliers.

Nor do the opportunities stop there. New

ways of engaging customers through social media and loyalty schemes are considered opportunities by a majority of retailers. Indeed, 71% of retailers surveyed said that digital marketing, including social media and mobile apps, provided an opportunity to attract more customers while 68% said loyalty schemes might also be a way of raising the footfall. >>



## Reducing staff levels and product ranges risks undermining the shopper experience to the point where they don't come back, no matter how low the prices.

### HOW RETAILERS ARE RESPONDING



### RETAILERS ARE LOOKING TO UP-SKILL





### EXPANSION PLANS

A key indicator of the changing, more positive mind-set of Irish retailers is their views on expansion. Indeed, half of those who took part in the survey (51%) plan to improve or expand their business in the next 3 years and many have multiple improvements in mind.

Renovation and staff training are among the key improvements they anticipate, though a greater focus on marketing and sales is also considered to be an important focus for the future.

All of this will inevitably create demand for additional financial resources. For the

majority (two thirds) of retailers, funding their expansion plans will come from retained profits, reinvested in the business. Bank loans will also be an important secondary source, alongside credit provided by wholesalers and other suppliers.

68% of those surveyed have looked for finance in the past 12 months, while 35% said they intend to look for finance in the year ahead. Furthermore, those who have looked for finance in the past are somewhat more likely to look for funding in the future.

About a third (35%) of retailers expect to look for finance from their bank in the next 12 months as they respond to opportunities in a changing marketplace, though 44% don't expect to do so. The balance, 20%, said they don't know.

### RETAIL INSIGHT

The 'new normal' of dampened expectations and caution change will mean that most retailers will seek to fund any investments through internal resources, focusing initially on less expensive and/or self-financing initiatives, such as training and renovation, that will deliver quick and measurable returns.

Relations between retailers and their banks will continue to be dominated by traditional money handling and transmission services, changing as new payment channels come on stream. Retailers will continue to invest in the equipment needed to provide customers with more payment options, but will have to continue providing more traditional options as well while many customers continue to demand them.



### RETAILERS INTENDING TO EXPAND





## RETAILING FOR THE FUTURE

Retailers are not waiting for the future, according to the Amárach Research survey. Indeed many are already investing in measures and initiatives designed to improve margins. These include training in financial management, mentoring/coaching and website development.

Looking ahead, large minorities of retailers are ready to upskill, with business planning and cash flow management among the types of courses they would be interested in doing in the near future.

Nevertheless, retailers can't do it all on their own. The survey asked about issues they have in relation to banking services and facilities. Around 55% said they had had difficulty getting new finance in recent times while 50% said they had difficulty when it came to re-negotiating existing finance terms. However, other aspects of banking services have been less problematic for most, though again it depends on whether they have had cause to approach the banks in relation to various services and facilities.

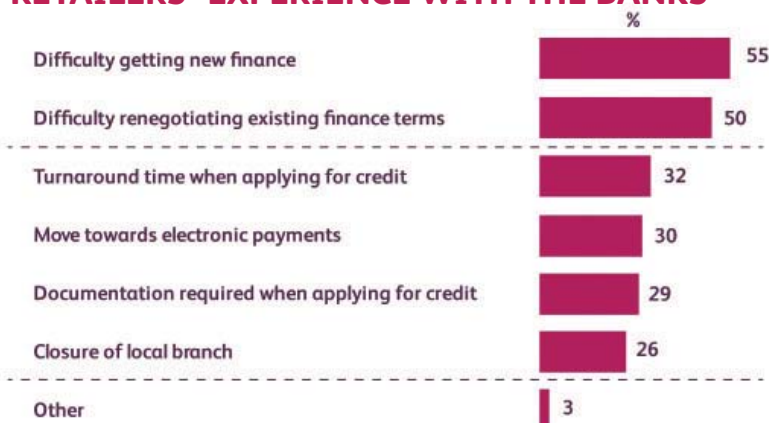
The banking relationship doesn't stop at day-to-day financial needs and near term financial resourcing. A key finding from the survey is that 20% of independent retailers expect to sell their business as part of their long run 'exit plan'. Another 22% said they expect their business to be taken over by a family member, while 58% said that they simply don't know, or haven't decided, what their exit plan will be. For some, this will inevitably reflect the short term pressures they face and the resultant uncertainty about the future.

### RETAIL INSIGHT

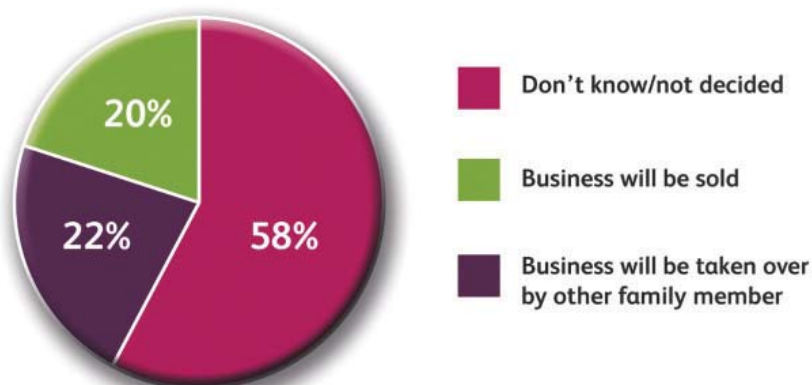
Retailers are already investing in their own future through training and up-skilling. There is a huge pent-up demand to learn more skills for the future. Looking beyond short term needs, succession planning will emerge as a growing challenge for many retailers, which, in turn, will require advice and planning. Their banks can and will play a key role in securing recovery, and ultimately in supporting succession as retailers seek to capitalise on the hard work they have put in and continue to put in to deliver success.



### RETAILERS' EXPERIENCE WITH THE BANKS



### WHO'S MADE SUCCESSION PLANS





# THE NEW NORMAL

THREE OF IRELAND'S TOP RETAIL EXPERTS SHARE THEIR VIEWS ABOUT THE CURRENT STATE OF THE RETAIL SECTOR AND WHAT LIES IN STORE FOR IT OVER THE COMING 12 MONTHS.

## STEPHEN O'RIORDAN

CHIEF EXECUTIVE  
ADM Londis

One of the biggest challenges early in the recession was sterling. Cross-border shopping was at its peak and the Irish market had to react to the sterling price differential. Londis responded by forming a buying alliance with Nisa, securing lower wholesale prices that meant they could reduce consumer prices. Greater buying power has also helped support the development of a wider range of own label products (including convenience foods), alongside a stronger off-trade offering.

Nevertheless, competition remains intense as the cake is a lot smaller, but those independent retailers who have come through the recession are undoubtedly leaner and stronger. Indeed, convenience retailing today is no longer about 'premium' and all about location and value. In other words, convenience retailers have matched the value offer of the bigger multiples while still meeting consumers' needs for easy access and flexible opening hours.

Independent retailers are mostly owner-operators, based in their communities, and they have responded by meeting the everyday needs of grocery shoppers for fresh food like locally sourced meat and key non-food categories like baby products. Nowadays, they have to offer a broader range of products and services than



STEPHEN O'RIORDAN

in the past, partly in response to consumers shopping more frequently in a larger range of stores, but spending less per trip.

For Londis, in particular, technology has played – and will continue to play – a key role in giving retailers access to a more efficient supply chain. This includes placing orders online via iPads to a centralised warehouse and chilled distribution network as well as other good uses of technology that make Londis store owners more efficient. The bottom line is that all retailers have to explore opportunities to be more efficient to save costs and to protect margins – and technology is and will be one of the most important opportunities.

But for all the importance of technology in helping us run our businesses, online grocery sales are unlikely to become much bigger than they are already. Even in the UK – with a vastly bigger population and more developed online shopping culture – grocery sales via websites are still only a fraction of regular sales in stores. Given Ireland's small market, and the

easy access consumers have to shops, it would be unrealistic to expect sales through grocery retailer websites to rise sharply.

Cost pressures from utilities, rates and banking charges are still significant, despite progress on other costs (especially labour and supplier costs). Against a background of flat sales, any increase in costs puts pressure on already stretched margins. The onus is therefore on all those supplying the sector – including the banks – to work with retailers to ensure that viable, profitable, job-creating businesses at the heart of local communities are given the support necessary to survive and grow in the years ahead.

## TARA BUCKLEY

DIRECTOR GENERAL  
RGDATA

The bottom line for retailers serving Irish consumers today is that they must provide value. But this doesn't necessarily mean lowest prices. Take Donnybrook Fair, a provider of premium products in the Dublin area for example. In the face of the toughest recession in decades it is not only thriving but opening new stores by creating a unique shopping experience that delivers value.

Part of the secret of independent retailers like Donnybrook Fair is that they 'express their Irishness', something all Irish consumers



TARA BUCKLEY

are more appreciative of these days. Of course, Donnybrook Fair is a niche offering, suited to its catchment area. But, then again, all retailers have catchment areas and the challenge is to identify what "value" means in terms of products or services and use simple, inexpensive ideas to create awareness, increase the frequency of visits and hold onto their share of wallet or purse.

Retailers have risen to this challenge. For many, this has meant becoming more involved in the day-to-day delivery of their outlet(s). Those who rolled up their sleeves and got stuck into running a tight ship and meeting customers' needs are the ones who have survived. Others have simply responded by widening the range of products that they carry so they can meet a wider range of customer requirements and needs. Others have introduced loyalty schemes that not only incentivise customers to spend more in store, but also to test new product and service ideas on loyal customers first.

The fact remains that the retailers who make up RGDATA's



members are the heart of the town centre for numerous Irish towns and villages, providing jobs at a time when we know they're scarce. Retail ecology on a high street works best when you have a successful grocery retailer that generates footfall that benefits other retailers nearby. It becomes a virtuous circle, by sustaining an appealing and diverse retail experience at the centre of the town and consumer spending is retained in the town which in turn generates jobs for the community and rates for local government.

Moreover, independent retailers have held on to more than a third of the Irish grocery market in the face of extraordinary pressure from the multiples and the discounters. A sure sign they are providing services and value that Irish shoppers appreciate.

The Joint Labour Committee issue is coming back on the agenda, arguably at the worst possible time. By virtue of the size of stores and the high

dependence on personal service, the independent retail grocery sector tends to be a more labour-intensive employer, with higher associated operating costs than either discount retailers or multiple store owners. Employers have been obliged to pay wage rates that are higher than the minimum wage rate and there is no public policy for having a different wage structure for the retail sector than applies generally. RGDATA welcomes the current review of the JLC and hopes that the review will result in the abolition of this policy.

In terms of banking services, one of the biggest challenges will be to integrate new technologies and processes (SEPA from 2014 onwards, see page 18) without disrupting the customer experience. Ultimately these systems will increase efficiency of payment for our members but providing the correct training will be important if retailers and customers are to benefit.

**“Independent retailers have held on to more than a third of the Irish grocery market in the face of extraordinary pressure from the multiples and the discounters”**



SEAMUS COFFEY

#### SEAMUS COFFEY

ECONOMIST  
School of Economics  
University College Cork

The worst of the contraction in Ireland's retail sector happened back in 2009-10. Retail sales have effectively been flat ever since, tracking the level we had back in 2004-05. Not much higher and not much lower, allowing for changes in how the CSO measures its retail sales index.

On some measures we are closer to a 'more normal' level for retail sales, following the overshoot (in sales and floor space) that was fuelled by credit during the boom. On the latter point, it is worth remembering that short term credit reached €15 billion at the peak, and is now back to about €7 billion. This is one reason why retail sales have fallen significantly more than disposable incomes: credit is no longer fuelling a retail splurge.

Another measure of the 'return to normal' is the savings ratio.

The Irish savings ratio today is more or less at the EU average (albeit higher than it was in the boom). Nor should we forget interest rates. The fall in the ECB rate since 2008 has effectively added about €3 - €4 billion a year to Irish disposable incomes due to the high preponderance of tracker mortgages in Ireland.

Beyond the economic cycle, a key driver of the retail landscape is demography. We are experiencing a baby boom right now, but the fact is that babies don't eat as much as twenty-somethings! Emigration also means fewer twenty-somethings (the key household formation age group), though we should also note the continuing inflow of immigrants into Ireland despite the recession (offsetting some of the impact of emigration). Ultimately a return to more people in jobs will contribute more to recovery in the retail sector than modest wage increases for those already in jobs.

As for retail investment, we can expect to see general business investment rise ahead of any increase in consumer spending, with a focus on replacement investment for things like newer equipment and shop fit-outs than necessarily any expansion in the form of new premises or additional stores. The 'new normal' for retailers and for consumers is a more cautious, more prudent business environment. It seems set to stay that way for some time to come. ●



# A MATTER OF CONVENIENCE

THE IRISH RETAIL CONVENIENCE SECTOR IS A VITALLY IMPORTANT PART OF THE IRISH ECONOMY BOTH IN TERMS OF ITS CONTRIBUTION TO GDP AND EMPLOYMENT. WITH AROUND 20% OF AIB'S SMALL BUSINESS LOAN BOOK NOW ATTRIBUTABLE TO THIS SECTOR, THE BANK IS COMMITTED TO HELPING THE SECTOR GROW, SAYS **KEN BURKE**.

The retail convenience sector is a key SME sector for AIB. On a daily basis our branches and business centres are dealing with retail convenience customers the length and breadth of Ireland. In overall credit terms the retail sector represents approximately 20% of AIB's SME loan book in 2012 while around 15% of new credit was to Irish retailers.

AIB is acutely aware of the important role the Irish retail convenience sector plays in servicing the needs of consumers across Ireland and the role it plays as a major employer in virtually every town throughout the country. AIB is also aware of the challenges facing the sector as a result of the economic downturn and is very keen to provide support for the sector.

The retail convenience sector in Ireland is worth €9 billion annually and grew by just 0.01% in 2012. Growth across the sector will continue to be subdued as austerity measures continue and consumer sentiment remains low. Competition in the sector is also aggressive as consumers change their spending habits. In 2012, food inflation in Ireland rose 5%

leading to consumers reducing their weekly spend by trading down to value-driven brands and categories.

One of the significant impacts of the economic collapse in Ireland is that consumer spending fell by 23% between 2007 and 2011 and the retail convenience sector felt the brunt of this fall. The survey conducted by Amarach Research, on behalf of AIB, shows that 6 out of 10 retailers experienced a reduction in turnover between 2011 and 2012 and that one of their key issues is reducing profit margins. Managing a retail convenience business in these economic circumstances is very challenging and requires intensive focus on costs and ongoing initiatives to maintain or where possible increase revenue.

In these circumstances AIB has experienced a significant reduction in demand for credit from the sector over the last number of years as decisions to invest in businesses are being delayed or put off and the level of risk appetite by retailers across the sector has reduced. A significant proportion of credit requests and sanctions relate to





working capital requirements, either for increased working capital, or for support for businesses where the turnover has reduced. Where AIB is satisfied that the business can demonstrate the ability to repay in the medium term, it has been supportive and sanctioned these requests.

The bank's recent experience has shown that some retailers have significant levels of debt where investments have been made in property. Where this coincides with a reduction in turnover as a result of the economic downturn, it can leave the business in a difficult position. AIB is working closely with customers in this situation on a basis to seek to work towards a sustainable solution and a path to viability.

Despite these economic realities there are many businesses that are making progress and some evidence of expansion with buy out of leases or refit/extension of existing premises. The nature of credit requests for investment AIB is seeing typically relate to a number of key aspects of the business.

Re-fit/enhancements to the retail outlet: Typically stores need to be revamped or refreshed every five to seven years. These costs need to be factored into the business plan.

Investment in shop unit to take on franchise/symbol: There will be occasions when retailers decide to expand their business by joining or switching retail symbol groups or becoming a franchisee of a larger franchise group. This is both an exciting and daunting decision but one that can create many positive business benefits.

In addition, some retailers are seeking bank finance to fund the purchase of new premises to accommodate the expansion of their business. Some are also seeking to refinance other bank facilities from financial institutions that have indicated that they are exiting the Irish market.

Over the last couple of years, retail expansion has been limited. There are, however, opportunities for retailers to take advantage of lower land and property prices in enhancing their existing operation. >>



## ► RETAIL CONVENIENCE SECTOR

### *Getting Finance for Your Business*

AIB's primary criteria in assessing new credit facilities, or refinancing existing ones, is ensuring that the business generates adequate cash-flow to service its obligations.

The bank is continuously reviewing its lending processes to ensure that it is as efficient and effective as possible so that our customers can access funding for their businesses when they need it. In doing so however we must be cognisant of, and compliant with, the regulatory requirements that are in place to ensure the prudential management of risk by the bank and the protection of the customer. In reviewing an application for additional credit facilities, we are obligated to consider the totality of a borrower's connected debt and determine both the appropriateness and affordability of the credit facilities applied.

This has resulted in a change in how relationship managers engage with customers and has led to additional information requirements and more intensive and detailed credit assessment than customers would

have experienced in the past. It is important that we ensure that our customers are aware of what information is required and that we are open and engaging with our customers in this regard.

When approaching the bank with proposals for credit we are actively encouraging our customers to come prepared with the information that will help us in making an informed credit decision. This typically includes:

- An outline of the proposal.
- A business plan.
- Financial information including audited accounts for the previous two years as well as cash-flow and financial projections for a minimum of two years.

We would strongly recommend that SME customers seek advice in preparing their application (particularly for more complex credit applications) from their accountant or business advisor. This support should enhance the business case which leads to a more informed credit application. At the core of this credit process is a desire on behalf of the bank to support customers in this sector with a key

### *Helping Irish retailers*

#### RECENT EXAMPLES

AIB has been active in lending to existing and new retail clients throughout the country. Typically credit has been given for things like shop refurbishment, the acquisition of a franchise license from a master franchisor or the purchase of new premises as part of a wider expansion of the business.

One such customer is Shaun Boyce, who operates three family-owned Centra outlets in Donegal. Over the past few years the business has expanded rapidly.

"We operate three Centra retail outlets in north-west Donegal," says Shaun Boyce. "This is essentially a family owned and run business which has expanded over the years from the original base in Carrigart. We now also have outlets in Falcarragh and Dunfanaghy. I took on the business on returning from Saudi Arabia. In 2012 we decided that the Carrigart outlet needed a facelift," he says.

"In the retail convenience trade it is important to keep the shop appearance



SHAUN BOYCE OPERATES THREE FAMILY-OWNED CENTRAS IN DONEGAL



determinant being the customer's ability to repay the facility sought.

Once all of the information is received, the credit decision making process begins. In many cases the decision will be made locally but for more complex application, the decision will be made jointly by the relationship manager and an independent credit team. Some of the considerations the bank will take into account before arriving at a decision are the dynamics and challenges within the retail sector, the borrowers' business model and competitive position and the management team's capabilities. The bank will also stress test future projections to see if the cash-flow can sustain the proposed debt repayments.

Once the credit decision is made, the bank will quickly inform the customer of the outcome and, if the decision is made to sanction the credit facility, a Letter of Offer will be prepared for the customer's signature. If the bank declines the application, it will inform the customer of the reasons why it was declined and outline to them details of the credit appeals process. At all stages, it is the bank's desire and intention to ensure that we are professional, engaging, honest and open in all of our interactions with our customers.

AIB recently launched an initiative for loans up to the value of €25,000 that is designed to promote credit availability to smaller businesses

through an efficient application process. This involves customers completing a standard AIB SME loan application form with no requirement to provide business plans, audited accounts or forecasts. The decision making process is made locally and is delivered to the customer on a next day basis. Typically, the credit is unsecured in the case of unincorporated businesses while a personal guarantee will be required for incorporated companies.

It is important also to point out areas where the bank does not have a risk appetite, in particular, when it comes to financing highly-leveraged transactions where the repayment capacity is not evident. Nor does it have a desire to provide credit to customers who may have significant personal or other financial obligations particularly where the cash-flow generated by the core business is required to service the repayments on these obligations.

The reality for AIB is that if it is to return its own business to viability, it needs to lend more money to SMEs. This fact is often missed in the ongoing public discourse on availability of credit. The overall and important message to the retail convenience sector is that AIB is already supporting and will continue to support the sector. We would strongly encourage any retailer who is thinking of expanding or is seeking finance to support working capital or indeed refinancing existing debt to approach the bank. ●

fresh and it is important to protect the Centra brand. We approached AIB in 2012 seeking additional finance and we subsequently met with the bank staff from the North West Business centre on site in Carrigart. Our loan application was subsequently approved and we were able to complete the renovations on schedule and in time for the Christmas trade," says Shaun.

Owen Hoctor (right), owner of McLoughney's in Shannon, is another long-term customer of AIB. "McLoughney's has banked with AIB for over 20 years and in recent times I have gone to the local AIB branch to look for finance to expand my business and received approval in a reasonable timeframe and meeting all my requirements," says Owen.

Based in Shannon, Owen was sanctioned credit facilities to take on an Eason's franchise which involved additional working capital for stock and funding for the relocation and fit-out of their store to bigger premises, situated in the Shannon Town Shopping Centre.



OWEN HOCTOR, OWNER OF MCLOUGHNEY'S IN SHANNON



# THE COUNTDOWN TO SEPA



THE COUNTDOWN TO THE INTRODUCTION OF THE SINGLE EURO PAYMENTS AREA HAS BEGUN IN EARNEST. IF YOUR BUSINESS USES DIRECT DEBITS OR MAKES ELECTRONIC PAYMENTS, YOU NEED TO START PREPARING NOW.

#### SO, WHAT EXACTLY IS SEPA?

The Single Euro Payments Area (or SEPA for short) is a European Union regulation which will change how businesses make and process electronic euro payments. So, if your company uses direct debits to collect money or make credit payments electronically, SEPA is going to impact you.

SEPA will make it easier for you to trade in the European marketplace, as there will be no distinction between making a Euro payment within Ireland and across Europe.

#### SO, WHAT IS CHANGING?

With effect from February 1st 2014, the existing Irish payment electronic system will close down. After that date, all electronic payments in euros must be processed through the new SEPA schemes. The most significant changes,

which the move to SEPA brings:

The replacement of National Sort Codes (NSC) and Account Numbers with Bank Identifier Code (BIC) and International Bank Account Numbers (IBAN)

The introduction of a new file formats for processing of electronic credit and direct debit files.

Different business rules of which all customers must comply with.

#### SO, WHAT DO I NEED TO DO?

SEPA will affect every business that makes payments electronically, whether by credit transfers or direct debits. For the majority of businesses, particularly small and medium sized enterprises, migration to SEPA will require you to make changes to your internal accounting/payroll systems. To what extent, depends on a number of factors – like how you make your payments, what



software do you use to create payment files and what business processes need to change to meet the new requirements.

As a business, you need to start this assessment and commence migration to SEPA now as the deadline has been set at February 1st 2014. Should you not make the necessary changes, you will be unable to make electronic payments after this date. AIB recommends that you make contact with your software provider to determine the scale of change and timelines for availability of their SEPA payment services.

In addition, AIB has set up a dedicated SEPA Migration team to assist customers in this process. Our SEPA specialists have the knowledge, expertise and solutions to meet your SEPA requirements today. For the most up to date information on SEPA, please visit our website [www.aib.ie/sepa](http://www.aib.ie/sepa) or email us at [sepa@aib.ie](mailto:sepa@aib.ie).

#### WHAT COUNTRIES DOES SEPA APPLY TO?

The SEPA zone countries are Austria, Belgium, Britain, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland (Republic of Ireland), Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, Slovenia, Slovakia, Spain, Sweden and Switzerland. •





Retailing is at the heart of the Irish economy. The retail sector in Ireland is the largest employer with over 260,000 people employed in the sector. This accounts for 14.5% of Ireland's total workforce. According to IBEC, Ireland's retail sector is made up of predominantly small, indigenous companies, with approximately 44,000 active wholesale and retail enterprises in Ireland. Across the sector, 86% of retailers have less than ten employees and 86% are Irish-owned.

Retail sales are down by close to 30% since the so-called Celtic Tiger era and this in turn has had a dramatic impact on the state's revenues brought about by a decrease in the amount of VAT and other taxes that the exchequer depends on.

While there were signs of recovery towards the end of 2012, unfortunately that trend has not emerged in the first months of 2013. Indeed the environment for retailers remains challenging with consumer spending still bouncing along the bottom. The Government's austerity programme, while necessary, has had an adverse effect on consumer confidence and the prospect of significant retail sales growth in the first half of 2013 appears unlikely.

I am of the view that Irish retailers across all trades are having a hard time of late. There are financial worries coupled with spiraling costs and decreased sales. Discounting is the new game in town and the Irish consumer is now shopping around for value. Symbol and

independent retailers look at the multiples who seem to have endless marketing budgets in the race to the bottom in terms of gaining price-driven market share.

It is indeed a great time for the discounters and for the consumer. But one only has to look at the retail fuel forecourt sector in the UK to understand that once the discounters have had their way and closed local retailers, they simply put the prices back up! According to retail wholesaler Palmer and Harvey, in its Forecourt Report, the number of petrol stations in the UK has plummeted to a record low of 8,500, a massive fall of 60% from the boom period 20 years ago when 21,000 forecourts were found in the UK. Ultimately the retailer



SIMON HEALY, RETAIL SECTOR SPECIALIST, AIB

and consumer lose but the 'discounters' keep on winning!

#### RETAILER FRUSTRATION

According to the latest AIB/Amárach Research Survey, 60% of retailers are pessimistic about future economic growth and the prospects for their sector. What I see in my work with retailers is widespread frustration - with the sluggish economy, with the slow decision making on finance issues, with pressures on margins in the face of competition and frustration with the overall uncertainty that has permeated the sector.

They are also frustrated with the changes in supplier credit terms. It is not uncommon for suppliers to ask for retailers' credit card details to pay for goods where >>

**PRESSURE ON MARGINS, FLAT SALES, RISING OVERHEADS AND UPWARD ONLY RENT REVIEWS ARE JUST SOME OF THE ISSUES RETAILERS HAVE HAD TO CONTEND WITH OVER THE PAST FEW YEARS. HOWEVER, THERE APPEARS TO BE A NEW FOUND RESILIENCE AND CAN-DO ATTITUDE PERMEATING THE INDUSTRY AND THIS IS GOOD NEWS FOR RETAILERS, WRITES SIMON HEALY.**

# CHALLENGES AND OPPORTUNITIES



accounts have been moved to “zero credit” status, even when the retailer has paid on time for years. Compounding matters is the ability of retailers to pay themselves a half decent wage at the end of every month after every other cost has been met.

On the consumer side of the equation, there is a clear move towards the discounters as customers are increasingly seeking out perceived value, particularly when it comes to food. Indeed price competition throughout the whole retail sector is the single most effective tool in growing sales as consumers are shopping at multiple outlets as opposed to traditionally shopping at a single outlet. Retailers are adapting low price strategies; quality has become less appreciated by the hard-pressed Irish shoppers, many of whom have moved from purchasing quality brands to substitute products and own brands.

Online retailing (e-tailing), meanwhile, continues to grow and it is estimated that as much as 57% of Irish consumers shopped online over the Christmas 2012 period. Irish retailers are also developing their own online strategies to deal with the growth in online shopping.

One of the many challenges facing the sector is the ongoing negotiation between retailers and landlords regarding rent reductions. It is in both parties' interests to partake in the process. The retailer needs to be upfront about the way in which his business is being impacted by unsustainable rent, particularly if the lease commenced during the boom years. The landlord, on the

other hand, can't just ignore the issue and point to the lease and the retailer's legal obligations. In many cases where there is intransigence on one or both sides, an empty retail unit is the more likely outcome.

The retail sector has been impacted recently with the closure of the British multinational music retailer HMV and the decision of B&Q to enter examinership and close two of its stores in Athlone and Waterford. Perhaps the most significant factor of the B&Q move to the examiner process is the potential wider impact it will have for landlord/tenant relationships across the retail sector. After wages, rent is the next biggest cost for domestic and international retailers in Ireland. According to the company, the total rent roll for the nine B&Q stores is €11.6m a year, €5.8m above market rates. Should the Commercial Court agree to rescind the cross-guarantees between B&Q and its parent company, the Kingfisher group, there could be broader consequences for the retail landscape.

### CREATING VALUE

Another key challenge is the Croke Park agreement and the impact it could have on consumer spending. There is also pressure on retailers in relation to the minimum wage. The employees in the front line have been burdened with increased taxes with the introduction of taxes like the universal service charge and the property tax. With the downward pressure on



price and margins, many retailers are simply not in a position to pay more in wages at this time. A key determinant on wage growth will be increased sales. The growth in retail sales will be largely dependent on the Irish consumer regaining confidence and spending money on both essential and, more importantly, non-essential goods at retail outlets.

Another key issue facing the retail sector is succession planning. This is a key concern for many owner-managed retail outlets across the country. The reality is that the vast majority of retailers do not have an exit strategy for their businesses. Most independent retailers either inherited a family business or saw an opportunity to run their own business successfully. According to the AIB/Amárach Research Survey, around 22% of retailers said that their businesses would be passed to family members with 20% saying their business will be sold.

Alarming, 58% don't have any exit strategy in place at all.

Value creation is the *raison d'être* of any business entity. Many people use a broad definition of value creation, and they include in it some financial factors (balance sheet analysis, cash flow, profit), internal capabilities (ability to innovate, leadership, people, brand reputation, customer base) and future potential of the company (growth, revenue forecasts, risk assessment). The bottom line is that once you have created value, you should know what you are going to do with it. As with most retailers, the success of the business is dependent on the drive, energy and direction provided by the principal of the business. Without this key asset of the business, the future is at the very least uncertain and the consequences could be catastrophic for the business. The key here is to start planning early to produce an exit/succession plan.





On a positive note, the AIB/ Amárach Research Survey found that 77% of retailers have initiated reviews of their businesses through external parties with the main emphasis on finance matters. I stay positive because the 'head in the sand' approach does not and will not work in this present climate. The recession is passing very slowly and the financial effects are evident in the annual financial accounts. External parties can bring huge value in a review process, see things differently and objectively make recommendations to the retailer.

Interestingly, the AIB/Amárach Research Survey found that a significant amount of retailers want to upskill in areas such as business planning, cash flow management and social media. We learn from our customers and wholesalers/suppliers on a daily basis. We can contract in expert help from time to time when necessary, but there is no greater way to learn than by

understanding a process from a theoretical perspective and put best practice to work in your business on a daily basis.

There have been problems in accessing credit and where there is a credit process it has been hard to navigate for retailers. Whether money is required for a revamp or new opportunities, the important step is to engage early with the bank and find out what information will be required to support an application for credit.

**“Concentrate on costs, create and deliver budgets and ensure the good use of management information to deliver value and a better bottom line”**

Once the finance requirement is established, preparation is key. Involve your accountant and wholesaler where necessary. It's important to quantify improvement in sales, costs and margin and demonstrate payback when making credit applications.

#### LOOKING FORWARD

An important attribute for any business trading through difficult times is the need for ongoing communication with all key stakeholders. These include customers, suppliers, wholesalers and financial institutions. Look at the turnover of the business and revisit problematic areas. Concentrate on costs, create and deliver budgets and ensure the good use of management information to deliver value and a better bottom line.

There will continue to be pressure on margins, particularly on local retailers, as lower prices will be the main strategic driver of sales with the consumer focused on value for money and less focused on quality.

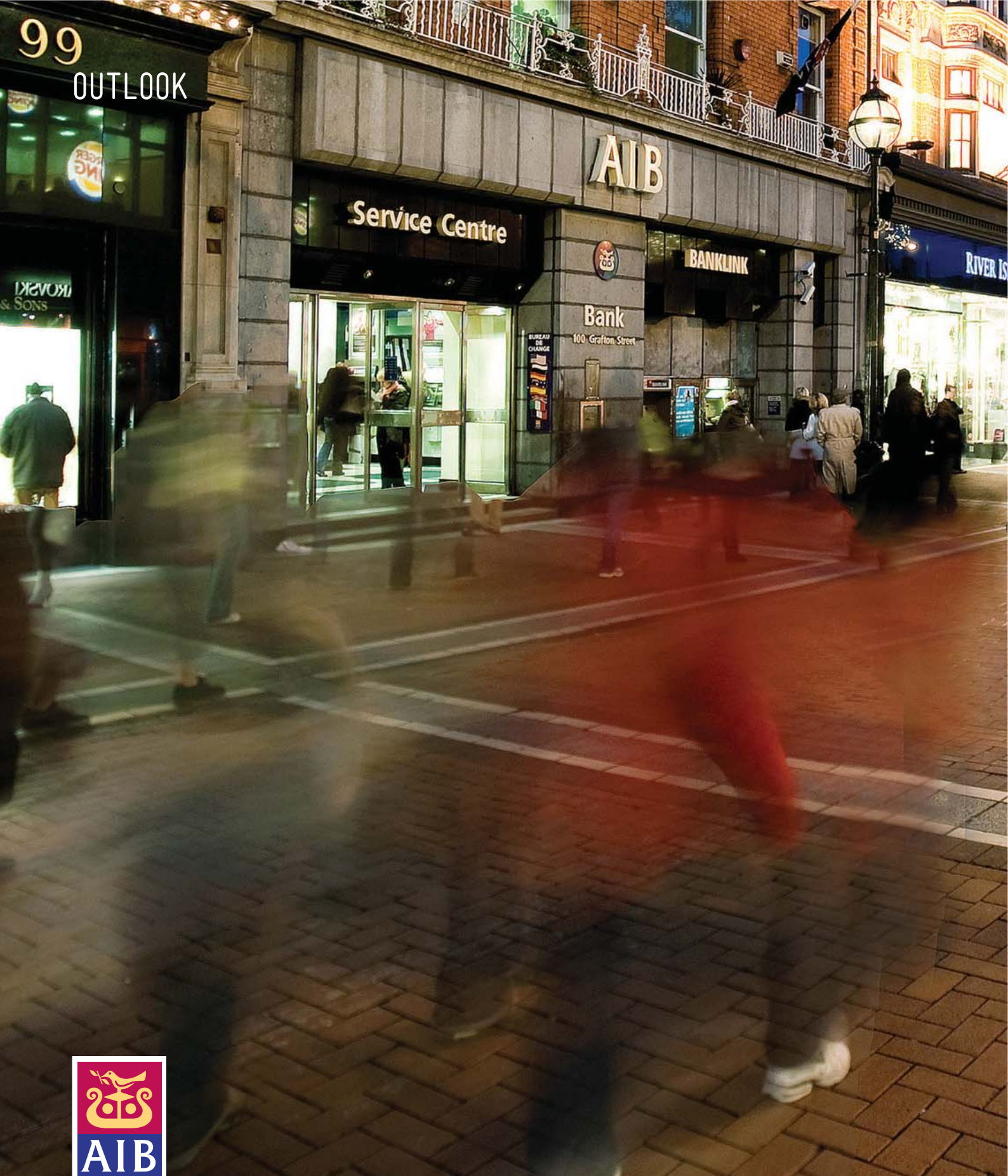
Online shopping will continue to grow as Irish consumers search for value on a wider purchasing platform. No particular part of the sector will be immune from this trend but the fashion and electrical goods sectors will probably be affected most.

There is an attitude in the retail sector that I often think is unique in Irish business. When things are going well, even as competitors, we talk to each other and remark how good things are. That exudes confidence throughout the business and is fantastic for retailer and employee morale. When things are bad, we talk to each other and remark that we have never seen it so bad. Unfortunately, that negativity quite often also passes through the business and has a negative impact on morale.

But what retailers have in common in this country is resilience and a “can do” approach. Every day is a new trading day with new potential. Retailers need to replace frustration with a process that sees them plan for the future, a plan that will ease the frustration, put things in perspective and maps the road to control. There are many factors outside their control and there is little point in trying to tackle or worry excessively about them. Retailers need to control what they CAN control. The one thing for certain is that there will be uncertainty over the coming months. We need to adapt as a sector, regain our confidence and be ready for when the economic clouds invariably lift and consumer spending increases. ●

*Simon Healy is a Retail Sector Specialist for AIB.*





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DROP INTO YOUR LOCAL BRANCH OR BUSINESS CENTRE OR CALL US ON 1890 47 88 33.



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