

WRITTEN STATEMENT OF EVIDENCE - RETAIL IMPACT

Planning Inspectorate Reference APP/E6840/A07/ 2049304/WF

Evidence of Stephen Theaker FCA CTA on behalf of SAUCE October 2007

Reason for Refusal No 3

PREDICTED EFFECT OF FALL IN TURNOVER ON SAMPLE ABERGAVENNY BUSINESSES

My name is Stephen Theaker. I am a Chartered Accountant and Partner in a firm of accountants practising in Abergavenny. I share the concern of town centre traders regarding the potential impact of the proposed non-food retailing in the supermarket within the livestock market redevelopment.

Introduction

- a. I have analysed the turnover, gross profit and net profit for 8 different town centre businesses over a period of two years (with year ends in 2006 and 2005) Under the rules of professional conduct I am not at liberty to reveal the names of the businesses.
- b. A change in the level of turnover of a business produces a similar change in the gross profit (ie if turnover is reduced by 5% so is gross profit). Generally such changes have no immediate effect on other overheads which are fixed in the short to medium term and therefore reductions in gross profit go straight to the bottom line and reduce net profit.
- c. It should be borne in mind however that a 1% reduction in turnover will always result in a greater than 1% reduction in net profit which is the figure which will determine whether or not a business is a sustainable one. This fact is illustrated in the analysis where for the average business in the sample a 5% drop in turnover leads to a 16% reduction in net profit.
- d. The gross profit for each business in the analysis has been reduced by 5%, 7.5%, 10% and 12.5% respectively and the net profit of each business reduced accordingly. The average of all the results is perhaps the most important figure although the effect on individual businesses very important since it is the individual businesses which have to make decisions as to whether or not to continue to trade.
- e. In an unincorporated business (ie a sole trade or partnership) the net profit is what the trader has to live on, in other words there is no charge in the accounts for his or her salary - so he or she has to bear in mind what they might reasonably expect to earn working for

somebody else in determining whether it is worth continuing with the financial risk and daily stress of running a business in the face of diminishing returns.

f. In a limited company the comparison is more complex because the proprietor's wages are deducted in arriving at the net profit of the business. However for a number of reasons including taxation the charge in the accounts is often not an economic charge with directors preferring for example to take dividends (which are not deductible in arriving at profits) instead of salary.

Commentary on the analysis

g. The average results show that currently profitability is not high in the sample used at £14,336. In pure economic terms this level of profit does not indicate a sustainable future unless the business is being viewed as a "lifestyle" business (ie the proprietor accepts that he might make a better economic return elsewhere but enjoys the lifestyle of running his own business).

h. Three of the results used however already show losses and if these are excluded from the calculations then the average net profit rises to £19,382 which is still low though clearly more healthy than before.

i. Businesses with high fixed overheads such as C/D will be more significantly affected by changes in turnover. In C a respectable profit of over £34,000 is reduced to just over £20,000 with a 7.5% fall in turnover. In D a profit of around £5,500 is turned into a loss of around £6,500 with the same 7.5% change.

j. The effect on net profit for the businesses in the sample can be most easily summarised by comparing (for the average business) the percentage change in net profit as follows:

Turnover down 5% - Net profit down 16%

Turnover down 7.5% - Net profit down 23%

Turnover down 10% - Net profit down 31%

Turnover down 12.5% - Net profit down 39%

k. It is the net profit of a business that will determine whether it survives. In the case of the so-called high street multiples it is the ability of the branch to meet its profit targets which determines whether the central management decides to continue trading. They are not charitable concerns and in this respect the loss of turnover has the same effect, whether or not the outlet is a private business or part of a chain.

Conclusion

1. The analysis of the sample businesses shows that times are currently difficult in the Abergavenny high street and this is generally evident from the number of businesses closing down or moving out.
2. Where a business is only just surviving in economic terms then any fall in turnover is going to have potentially serious repercussions. A 5% fall in turnover is a serious problem for any trader. For the traders in the sample analysed it could be catastrophic. A fall in turnover above 5% taking profits down by more than 20% would be unsustainable for most traders.
3. My experience shows that where even a few businesses begin to fail there is a knock-on effect on the trading, profitability and viability of other businesses, as footfall is lost and the shopping environment is degraded. It leads inevitably to a collapse of sustainability in the retail focus. I have observed this in other towns which have been damaged beyond repair by developments such as that proposed.

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PEACHEYS CHARTERED ACCOUNTANTS

23 August 2007