



# Don't fear deflation 'bogeyman', says retailer

By Hugo Greenhalgh

Concerns over deflation are overblown as a drop in prices could lead to better deals and provide a much-needed boost to small and medium-sized enterprises, entrepreneurs have claimed.

In spite of the retail prices index falling to zero in February, James Murray Wells, founder and chief executive of Glasses Direct, an online spectacles retailer, said the possibility of mild deflation was being treated as "the bogeyman". He added: "Our supply side business-to-business contracts have become easier to negotiate. Downward pressure on prices in the high street on fixed leases just makes it more difficult for the competition."

His comments were echoed by Jason Calacanis, a serial entrepreneur and founder of the Mahalo search service, who said deflationary pressures had

brought immediate cost benefits. "We've renegotiated every contract we have from our phone systems to servers, and reduced prices across the board," he said. "The total saving is at least 20 per cent as vendors would rather have 80 per cent of our business than zero when we move to another vendor."

Stephen Archer, director of business consultancy Spring Partnerships, agreed. "I don't think deflation is as big a problem as many economists are predicting. There seems to be a latent panic about the current 1-2 per cent deflation rates."

For Doug McLean, chief executive of Office Canopy Group, an internet stationery company, the prospect of deflation yielded opportunities. "Deflation is generally bad for business and market confidence – however, as we're in the cost-saving game it actually suits our business model quite well,"

he said. "We have borrowed money in the past, but now our business is profitable and cash generative. We can buy more with our cash as a result of deflation."

Mike Welch, founder and managing director of Black-circles.com, an online tyre retailer, was more equivocal.

"Deflation makes it even more essential for businesses to adopt more nimble practices and respond to customers' changing habits. Anyone in retail should be focusing on offering more budget and mid-range products and increasing their margin to give customers a more attractive deal."

However, Philip Bird, managing director of the PC Support Group, warned deflation could lead to buyers delaying purchases in the belief that prices will fall. "This slowdown in sales can massively impact a business to the point when it can no longer survive," he said.