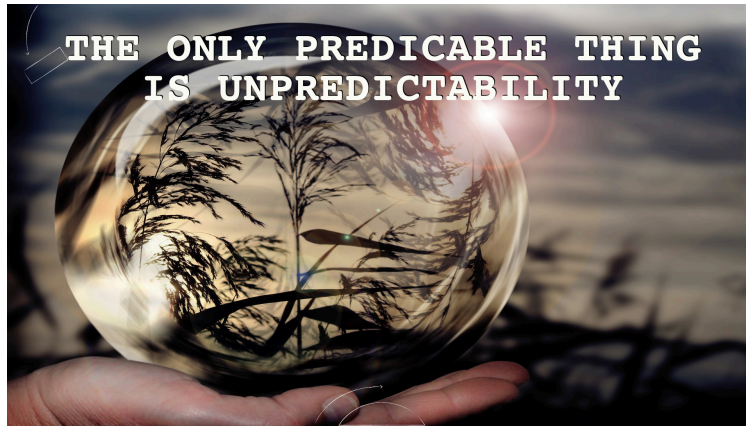




6th Global DIY Summit
Presentation
June 2018
Barcelona, Spain



Brexit has really got businesses thinking, it is a great example of how you and your business deal with change and challenge - so how do you react?

For me I like to grab hold of an issue, stare it in the face, crack on and deal with it all - and this is what I believe we need to do with Brexit.

This article will take you through a series of quotes and comments from leaders of business in this industry, tell you about the impact the Brexit vote has had on business already, and it outlines some advice for businesses during this journey.

We are in uncharted territory for sure, yes we have been through challenging times like recessions, more than once for some of us, but we have not been here before.

So does the UK government have a plan?

Do they have a negotiation strategy?

Are they building that all important leverage required to achieve a good result?

Are the right people around the negotiating table?

All of this is still under a lot debate and currently we certainly seem to be an audience watching a negotiation in process, and as we all know there are things that are said during a negotiation that are designed to prompt a reaction and shift direction, they are not always what you are wanting as an end result.



For this article I am not going to be a politician, nor an economist, and definitely not a fortune teller.....although we could do with one of those at the moment, but as I am a business optimist I want you to finish reading this with a more positive view of Brexit.

So my first quote comes from :-

Helen Downer

European Category Director for the FETIM group.



‘the characteristics of the UK market haven’t suddenly changed overnight post Brexit. It remains highly developed, market orientated yet challenging place to compete. It is a highly globalised economy. We will need to adapt to the new rules of the game, but history shows that we are able, provided we are willing.’

Businesses have not traded with the UK just because we were in the EU they did because the UK is a strong market. Yes it is competitive and most would say that if your business can make it in the UK you can make it anywhere, but a strong market all the same. Develop your business in the UK and not only will it deliver for you it is also a great learning ground for any business.



Lets just take a step back for a second. Where were you when the news hit that we were out of the EU? 23 June 2016 I was up at 5am getting ready for a flight to Cologne for a meeting with a German client.

I saw the result of the vote and I have to say I was shocked, and like many businesses including the UK government I had not planned for this outcome at all. (note to self, always take some time to anticipate the most unlikely events so you are never on the back foot).



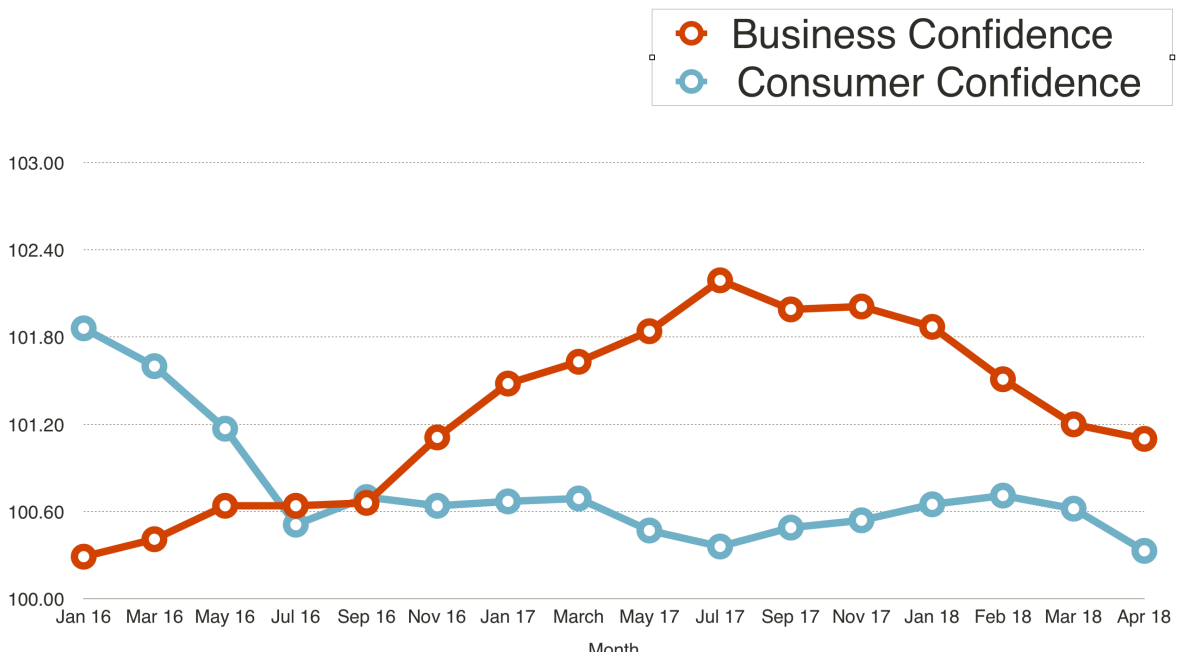
Another quote from the CEO of a UK pureplay business.

“Brexit has brought an extremely high level of uncertainty which continues to be fueled by contradictory newsfeeds - in my opinion this uncertainty is likely to continue until 2020”

So here we have a CEO who feels there is an issue with confidence, confidence from businesses and with the consumer and was not even confident to put his name to a Brexit quote.



So lets see if that is true 🤔



Here we can see consumer confidence dropped anticipating the vote and dropped further as a result of it. It hasn't really changed but as we can see it is dropping off still further more recently.

Business confidence improved after the vote, probably because the doom and gloom did not happen...the world didn't stop, but has been steadily declining since.



The decline more recently is probably as a result of all the uncertainty of the Brexit deal, and also not helped as a result of many businesses currently struggling and realigning their business. I did say I was a business optimist, so maybe these businesses are resetting themselves for the future and to be sustainable, we are quite good at that in the UK. We must however spare a thought for the people that are losing their jobs during these turbulent times.

So if you are getting worried by the sensational newsfeed headlines, try not to be so alarmed, the UK business press are currently what I would call Brexit junkies and latch onto anything Brexit for a story.

This level of uncertainty has affected business planning, many businesses are being cautious, and certainly for those willing to invest in the UK.

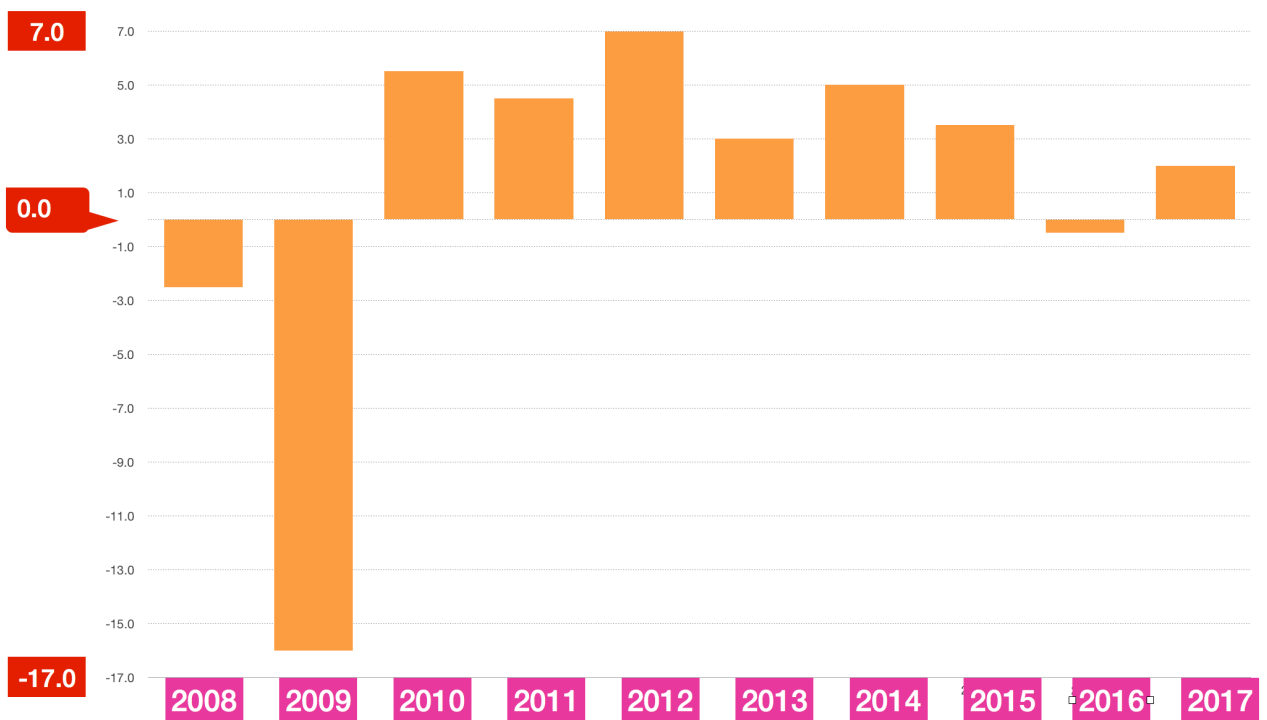
For American and Chinese business investment, who saw the UK like an aircraft carrier facilitating business across Europe, as a result of the Brexit factor we have potentially sunk this ship or at best put it on hold.





BUSINESS INVESTMENT

The statistics show that business investment fell in 2016, the first annual decline since recession in 2009.



There was growth of 2.5 per cent in 2017, but this was also a year in which the global economy bounced back, meaning that all things being equal, UK investment should have grown much more rapidly.



So my next quote.

Paul Grinsell

Executive Director Home Improvement (DIY)



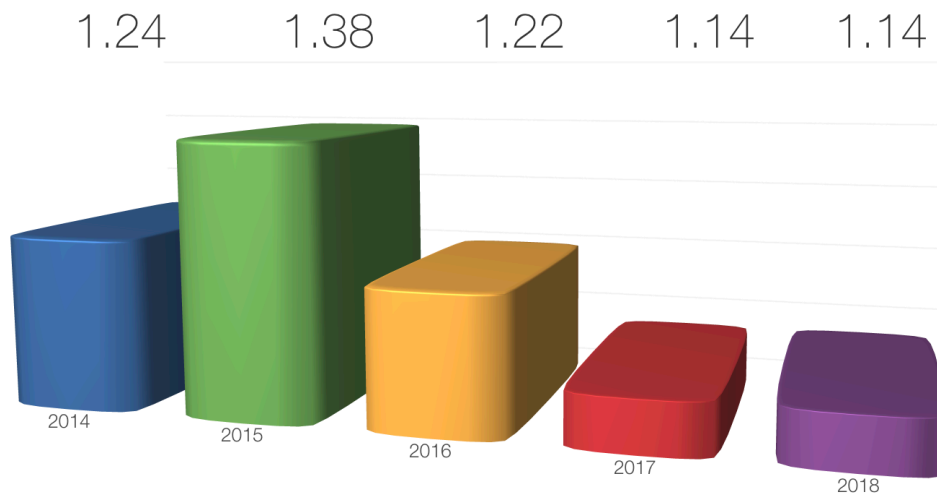
“...the most immediate negative impact of the Brexit announcement on suppliers was the devaluation of sterling against the euro and US Dollar. This has forced up consumer prices at a time when consumer confidence is at a low level in the UK with prices rising faster than wages”

So lets take a look at what happened with currency.....



CURRENCY DEFLATION

So we can clearly see the £ dropped in relation to the €

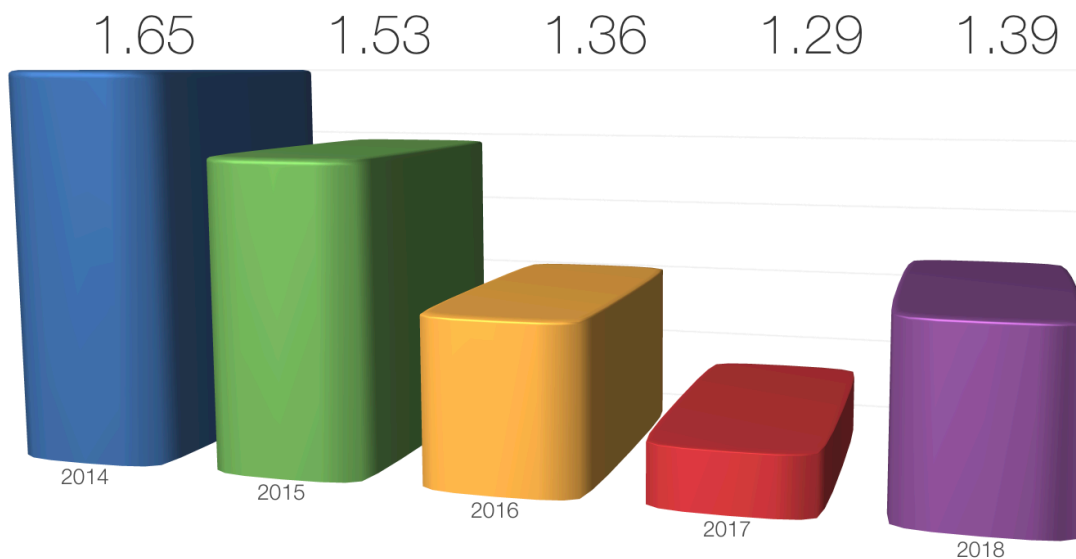


The exchange rate went from 1.30 on the day of the vote to the sub 1.20'S after it, and has remained there ever since.

Obviously this increases the cost of imports into the UK from the EU and affects prices. However currently there is a honeymoon period of benefit with our exports from the UK, of which 43% go to the EU, where there is a currency benefit to businesses. Not surprisingly 24 percent of businesses increased their export business last year.



The biggest impact has been the £ to the \$, not just affecting this industry but has impacted other industries.



This exchange rate has a wave like cycle to it if you follow it over the past 10 to 15 years, and 2016 was actually one of the low points of that wave cycle and the Brexit vote then took it still lower.

It was 1.43 before the vote, which many of you will agree is not fantastic, and it dropped into the 1.20's which was the biggest drop on modern records.

Whilst it has crept up back to nearly the pre vote level, probably more down to the weakness of the dollar rather than the strength of the £, it has now dropped into the 1.30's again. Forecast says it will probably get worse. We shall wait and see.



So back in April last year 10 months after the vote I spoke at the BHETA forum to over 350 of its supplier members about currency fluctuations and the challenges on the cost of product.

During the talk I asked the suppliers who still had a problem as a result of currency fluctuations and therefore who hadn't been able to secure a cost increase during the past 10 months.



THE RESULT WAS SHOCKING!

ALL BUT 4 STILL HAD AN ISSUE!!!

Now I accept cost increases are a challenge for both retailers and suppliers, but no resolution after 10 months is alarming, so I walked them through some practical solutions that they could use to move things forward with their retail partners.

Copy this in to your browser to read my full white paper on the subject <https://www.cfdstrategicsolutions.com/publications>

The solutions are not only for this specific situation, and not just for suppliers to retailers as many retailers have shared these ideas with their buying teams and supplier base, and not just for the UK as they relate to any situation where there is a challenging situation between two businesses.

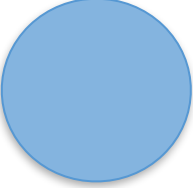


PRACTICAL SOLUTIONS

“Back your request with data”

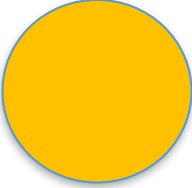
Do your homework and demonstrate the impact on the cost of goods, not just simply ask for an increase due to the situation.

Build a robust and compelling position showing history



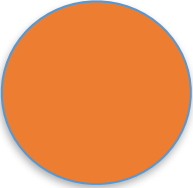
For example in this situation demonstrate what else has changed, raw material changes, transport and labour rate increases.

Show that you have put pressure on your business to deliver savings




We know the Chinese factories have had a currency benefit of the dollar in which they are paid, to the RMB during 2016 and 2017. If you didn't get the benefit now that it is moving the other way, this is something you could push back on.

Demonstrate what you have done to reduce costs



Whether that be the introduction of new products, additional ranging, or contract commitments to deliver savings

Develop innovative solutions



Think differently with new ideas such as Product re-engineering and supply chain efficiencies



HIDDEN INFLATION

I spoke with :-

Nigel Fisher
Managing Director
from Yale UK.



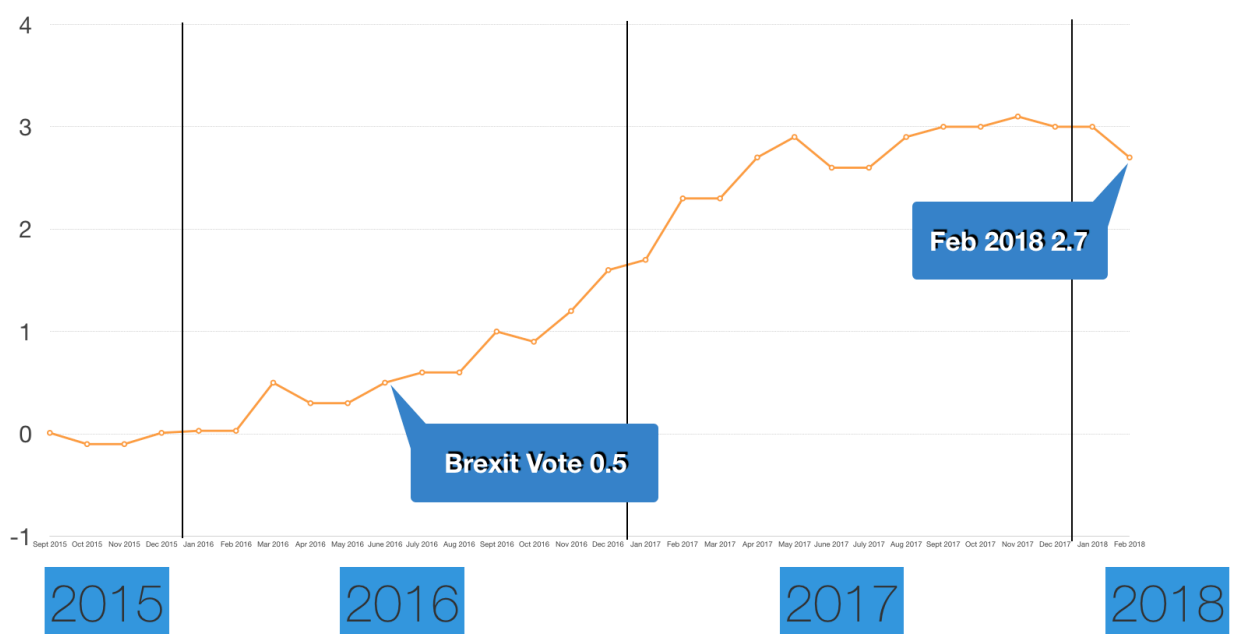
“Brexit has no doubt had an effect on DIY in the UK and I can see this in my own business.

Consumers are seeing higher prices on shelf...these retail increases can't be avoided I'm afraid. Suppliers and retailers, universally have been affected, meaning prices have had to rise”

So lets take a look at inflation in more detail:



Here we can see inflation has risen by over 2.5% in 2017, in fact it was running at 0.5% pre the Brexit vote and did hit 3% during the year. The reality is that no one party can absorb the full impact of such increases, not the supplier, not the retailer and not the price conscious consumer.



So as an industry in the UK we probably have still not yet fully dealt with the issue. We have not yet seen the full impact of the exchange rate fluctuations so we are in a period of what I am calling Hidden inflation.

When the Bank of England talks about inflation at around 2.5% over the past year, they do not talk about this.

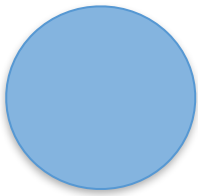
This is the inflation that will come through in further price rises, higher priced new product launches, fewer promotions, even cut backs in staff numbers or store numbers – we are seeing these now in our industry and in many others in the UK currently.



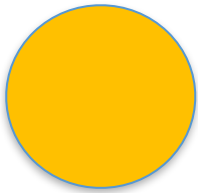
PRACTICAL SOLUTIONS

As an industry we need to deal with matters such as these in order that we deliver strong collaboration throughout the supply chain to deliver real growth.

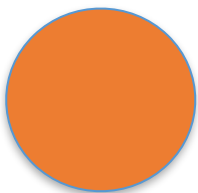
So we need to do the following:



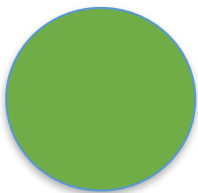
Work in collaboration between retailer and supplier



Deal positively with the issue



Be professional at all times and don't let your team get frustrated



Make sure you keep the consumer in mind throughout your discussion

Make sure you take the long term view and don't destroy those relationships that have taken years to develop ...and remember....There has never been a time where it is so important that retailers and suppliers work closely and collaborate to ensure they are both successful



Next quote from

Euan Sutherland
CEO Superdry (ex Kingfisher CEO)



“Brexit uncertainty is an unwelcome headwind for many U.K. businesses meaning significant additional investment which isn’t consumer focussed. It’s time to diversify by geography and channel to mitigate these global shifts”.

Like Euan has done with the Superdry businesses in expanding its International sales, both suppliers and retailers should expand their field of vision and look at new retail channels in the UK, across Europe and beyond.

DID YOU KNOW ! There is even a government funded department, the Department of International Trade, that is focused on helping UK companies develop their businesses outside of the UK especially through marketplace retailing. www.gov.uk/dit



On the subject of Marketplace's, they are not only offering a fast way to expand business across countries but also a way to increase profit. It is often the most profitable sales channel of choice, above even your own website.

I am currently working with Manomano in France and they are having a huge impact in our industry. They are smashing targets in France, Italy, Spain, Germany and the UK. They are approaching the market in a different, new and refreshing way.

Their co-founder said this about Brexit:-

Christian Raison
Co-founder Manomano



“A different currency, a natural border and cultural differences have always made business with the UK slightly harder. Brexit potentially creates yet more barriers and more complications. The need for all businesses to have understanding, empathy and be able to work closely and collaborate with each other is so important for us all to grow and move forward to a prosperous future.”

And here is the reality, I am sure you acknowledge and agree with....it may not have been easy dealing with the UK historically and we are about to make it potentially more of a challenge, but the UK is open for Business.



So I asked around for others that are positive about the future...

Stephen Robertson
Chairman of retail economics
and ex MD of B&Q

“The UK government is very aware of the need to secure excellent trading with EU and globally. I am sure that a mix of negotiation and just a little bit of fudge will take us to first base. Perhaps more importantly, the government will try to deliver a longer transition period to give time to iron out the gremlins for the benefit of both parties”

There is definitely a ray of hope, a positive and upbeat feeling I am getting from business leaders....there is business to be done here.

I spoke to

Archie Norman,
who is Chairman of M&S and Lazard (London), Deputy Chairman of Coles and adviser to Wesfarmers and previous Chairman of ITV, Hobbycraft and Member of Parliament. I discussed with him his view of Brexit, he commented:

“Business with the EU makes up around 43% of our exports and whilst new regulations in the future may not be in our favour and possibly to our disadvantage, it is important that we carry on and adapt where necessary. I believe we will find a way through this to continue trading strongly”



So the predictions of the immediate doom and gloom were wrong. The UK economy is estimated to have grown 1.8% in 2016, second only to Germany's 1.9% and has continued to grow through 2017. Inflation rose after June 2016 but has since levelled at 2.5%, although this may well rise as I mentioned earlier, but unemployment has continued to fall to a 40 year low of 4.3%

Whilst there is a lot of posturing from the European union, and I wouldn't expect them to give the UK negotiation team an easy time anyway, I wouldn't if I were them, one has to believe that a mutually agreeable end result will be found.

So dates for your diary:-

We officially leave 11pm 29th March Friday 2019

Transition Period until 31st December 2020

We are now on the 12 month countdown with only 8 months to go.





SOME FINAL THOUGHTS!

The UK is open for business, it is a strong market

Businesses in the UK are resetting themselves...adapting or they will die

Don't be too alarmed by the inconsistent press or fake news

We will find a way to continue to trade strongly

UK businesses should diversify by geography and channel

So finally, I thought I would add my own statement for the record:

“Due to Brexit we will have challenges, but often during these trying times we see businesses change what they do and how they do it, with innovative ideas, so we should be upbeat about the future”

Clive Daley

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We believe in helping great organisations to really understand their potential.

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We believe if we work together great things can happen.

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Clive and Kerry Daley

