

THE BIG STORY

Brexit: Retailers get ready for 'no deal'

Businesses are being forced to treat a hard Brexit from the EU next March as a real possibility, so what can they do to prepare themselves for it, asks **Matthew Chapman**

Last month, Next chief executive Lord Wolfson – a vocal supporter of Brexit prior to the referendum – told ITV his fear of the UK “crashing out” of the EU and revealed the retailer has put in contingency plans for such an eventuality.

Wolfson's words cast serious doubt on the Government's handling of Brexit. “Businesses are ready, but my worry is not businesses,” he said. “My worry is, is the Government ready? Has it worked out the policies that it needs to put in place if we are unable to do a deal?”

Other retailers are treating a no-deal scenario with equal gravity. Amazon's UK boss Doug Gurr has suggested it could lead to civil unrest, while Aldi has reportedly asked suppliers about the implications of World Trade Organisation (WTO) tariffs.

Richard Lim, chief executive of Retail Economics, warns: “Retailers need to be scenario-planning and trying to quantify the impact that a hard Brexit and a default to WTO tariffs would have on their business.

“My experience is that lots of retailers are right at the beginning of this journey of trying to calculate the impact a hard Brexit would have on their business – and the majority of them haven't done this kind of work.”

The issue for retailers is it is hard to prepare for ‘no deal’ when it is unclear exactly what they are preparing for.

Gary Grant, founder and chairman of toy retailer The Entertainer, says: “Two years on from the Brexit vote, nobody can tell us exactly what that vote meant from the point of view of

the impact it will have. We talk about a hard Brexit or soft Brexit, but tell me in layman's terms what do they mean?”

Grant says he is unsure whether some issues he is grappling with fall within a ‘hard’ or ‘soft’ Brexit, such as the requirement for CE marking on toys – which states the company that first imported the toy into the EU.

“Does that mean I need to set up another company in Europe or have a second address on the product?” asks Grant. “Nobody has told me what I need to comply with.”

However, Grant believes the greatest challenge facing his business in the event of a no-deal Brexit is the tariffs placed on goods exported to the EU.

“We will be, in effect, exporting from the UK into the EU and that might make me uncompetitive and could impact on volumes,” Grant explains.

He argues that, if he already knew what duty he faced from exporting products to the EU, The Entertainer could work out how to “harmonise” prices to ensure they are competitive with EU-based rivals.

However, finding ways to avoid passing price rises on to the customer in a tougher-than-ever UK retail environment is a big ask.

Supply bases

Another issue comes from retailers having EU-based suppliers. Both Lego and Playmobil have pan-European distribution centres, which Grant fears could impact prices if tariffs were applied after a no-deal Brexit.

“Products are made in Europe and all my orders in the UK are sent to

me from Europe, so does that affect pricing?” asks Grant.

The greater challenge from a no-deal Brexit is likely to be faced by the UK's grocers. A toy clearly does not face the prospect of rotting as it waits to clear customs.

An impact report from Kent County Council revealed there could be a 13-mile-long lorry park for years outside of Dover, should stringent checks on imports and exports be introduced at the border.

Initial talk of the stockpiling of food was dismissed as scaremongering, but is now being discussed openly by Government.

Brexit secretary Dominic Raab said the Government would not stockpile food and appeared to expect grocers to ensure adequate supply, which caused the industry to hit back.

British Retail Consortium chief executive Helen Dickinson said: “There's no space to store food. Supply chains are extremely fragile.”

However, Lim argues industry cannot necessarily rely on Government and needs to take matters into its own hands.

“I think too much trust is being placed in the Government to resolve a lot of these issues and I think retailers should be taking a serious stance and planning for a hard Brexit,” says Lim.

While the possibility of stockpiling food is off the table, one way of mitigating the impact of a no-deal Brexit is to reduce a reliance on the EU for fresh produce in the eight months leading up to Brexit.

Only last year, the reliance on



the EU for the UK's food supply was laid bare when Morrisons, Tesco, Sainsbury's and Asda faced shortages of fresh produce, including courgettes and iceberg lettuce, after a blizzard in Spain.

Buying British

Last year, Morrisons commissioned *The British Food Report*, which warned that Britain currently relies “too much” on food produced overseas – exporting £1.8bn worth of food and importing £39bn. The difference is worse for vegetables, a category in which the UK exports £1bn worth of produce but imports £9.1bn.

One grocery executive told Retail Week: “It is impossible to import some fresh products from different countries, but customers like to see local produce in their local store. Where we can, we will look to source produce from the UK because it makes sense from both a cost and customer perspective.

“What definitely will not happen is this idea of stockpiling food. Warehouse space is already at a premium, so I don't know where the Government thinks these big sheds

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Clockwise from above: The Entertainer; an automated warehouse; and Morrisons milk



will suddenly appear from to allow that to happen."

Morrisons is perhaps the grocer best placed to weather the potential no-deal storm. To coincide with the launch of *The British Food Report*, the Bradford-based grocer revealed it was inviting British suppliers to pitch for listings in its supermarkets in order to bolster its position as the largest single customer of British farming.

At the time, Morrisons chairman Andy Higginson said: "We want small UK food suppliers to become bigger ones and we also want to give our customers the option of more food that meets their local food tastes.

"The publication of the report makes us more determined to produce more of our food and source more from local British suppliers."

Fat Face chief executive Anthony Thompson says the most important consideration for retailers in any sector is to maintain the flow of goods.

"The most practical thing to do is to be fleet of foot and be able to flex your business models quickly," says Thompson.

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Anthony Thompson, Fat Face

"We are up to date with our infrastructure investments and on that basis we can be quite flexible."

Yet Fat Face has no plans to source more product from the UK to guard against a no-deal Brexit.

"We have got brilliant suppliers and the average length with our manufacturing partners is over 12 years, so I'm not going to be breaking those fantastic relationships just because we might have some short-

term issues in terms of the flow of goods," Thompson insists.

Workforce worries

Another major concern in the event of a no-deal Brexit is its impact on the make-up of the British workforce. EU workers already account for a significant proportion of staff across many industries, including retail.

The number of EU citizens leaving the UK hit its highest level for a decade last year, as 130,000 emigrated in the year to September 2017, according to the ONS.

Although more EU nationals (220,000) still moved to UK during the same period, the Commons Home Affairs Committee yesterday urged the Government to set out plans for who will be allowed to come to the UK when EU free movement rules end.

MPs warned that immigration risks "being caught up in a rushed and highly politicised debate".

Dickinson adds: "Since the vote to leave the EU in June 2016, immigration from the EU has fallen and the impact of the availability of workers and the cost of employment could be felt by

consumers unless the retail industry perspective is recognised as the Government focuses on the post-Brexit labour market."

Thompson says Fat Face has not yet encountered any Brexit-related staffing issues, but believes it could become an issue over time.

"In the short term, there has been a squeeze on the labour market in terms of availability – that is the inevitability of this situation," says Thompson.

The post-Brexit retail employment market could therefore be more reliant on British-born workers – and much has been made of the importance of solving retail's image problem in order to attract new talent.

A focus on automation and robotics will help reduce the menial tasks often associated with low-level retail work, and allow employees to focus on the more fulfilling aspects of those jobs.

Picking out the positives

Lim argues the prospect of a no-deal Brexit need not all be doom and gloom for retailers, though.

"The opportunity for them lies in understanding the international trade environment which, Brexit aside, is completely dynamic," says Lim.

But trade deals are notoriously hard to strike and are often years in the making, so any international trading upsides could be a way off.

Thompson believes one positive long-term outcome could, therefore, be a boom in British manufacturing.

"Hopefully what happens is, over time, it will encourage more production in the UK because I'm a big believer we have the capacity and ability to make fantastic product," he says. "If countries in Europe like Portugal can make fantastic product, why can't we?"

Both Grant and Thompson maintain there is only so much pre-empting that retailers can do because of the lack of clarity on the final nature of Brexit.

Thompson goes as far as comparing Brexit to the Millennium Bug in that, when it finally happens, people could end up wondering what the fuss was all about. He argues that the key is to never lose focus on the customer amid all the contingency planning.

"Anyone who is spending their time doing lots and lots of that [contingency planning] rather than focusing on customers is probably not going to have as good a business in March next year as March this year," he concludes.

Retailers must strike the balance between contingency planning and serving their shoppers to ensure that doesn't happen. **RW**