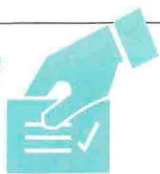


## ELECTION 2017



# What the election means for retail

Following the surprise general election result, retail leaders discuss what the fallout is likely to be for the industry.

By **Luke Tugby**, **Emily Hardy** and **Grace Bowden**

**T**heresa May's decision to call a snap general election backfired as the Conservative Party lost its majority, plunging the UK into further political uncertainty.

Retailers had been hoping that the vote would deliver a period of stability as Britain begins negotiations to leave the EU and companies demand change and clarity on policies ranging from immigration to business rates.

But the hung Parliament has seemingly thrown those hopes into turmoil and could serve to dampen already fragile consumer confidence.

As Tapi founder Martin Harris laments the outcome as "the worst result we could have had", Retail Week analyses the impact of the vote on retail.

## Brexit

Theresa May's main justification for calling an election was to secure a Brexit mandate, but Britain's position heading into the negotiations now appears more wobbly than ever.

The Conservatives had made their stance on a hard Brexit clear, but having vowed to "work closely" with the Democratic Unionist Party (DUP), the door could be open for a softer exit from the European Union.

GlobalData UK research director Patrick O'Brien admits "the notion of what Brexit will actually look like is even more difficult to comprehend now" – and retailers have voiced their dismay at the growing cloud of uncertainty, just 10 days before negotiations with the EU were due to kick off.

Carpetright boss Wilf Walsh says: "The biggest challenge undoubtedly for the economy is the successful negotiation of Brexit terms. You don't want uncertainty piled on uncertainty.

"So, if this Prime Minister is involved in it, she'll need to show the opposite of her election

campaign, which was complacent, arrogant, lacked visibility, leadership or a plan. There was nothing in the manifesto to say what she was going to do."

Incoming Hobbycraft chief executive John Colley believes negotiations with the EU will be "very hard" for a coalition government and says the future of the UK's trade agreements with Europe was now "a big concern" for retailers.

Harris adds: "It comes across that this country doesn't really know what it wants."

However, The Hut Group and Fenwick chairman Richard Pennycook believes the hung parliament could have positive implications on our exit from the EU.

He says: "Under a coalition with the DUP, that implies a softer Brexit and probably a better outcome on access to EU workers, which will be a good thing for retail."

Ann Summers chief executive Jacqueline Gold voices a similar view.

"As a remain supporter who has now come to terms with a future outside the EU, I continue to have concerns about the impact of ending freedom of movement on retail businesses such as mine," Gold says.

"I have long seen immigration as a positive for our sector. Ann Summers has certainly benefited from it at every level of our operation, from head office to our warehouse.

"If this result leads to a softer Brexit, then retaining freedom of movement would be a positive outcome for me."

## Currency and inflation

The pound has already taken a battering in the year following last June's Brexit vote and it plummeted further immediately after the election result.

The slump will have exacerbated concerns among retailers that imports could become even

more expensive and put further pressure on margins, or force them to increase shelf prices.

Inflationary pressures have already started to creep into some sectors, particularly grocery, and Colley says retailers need sterling to stabilise to help them rein in costs.

In the last fortnight alone, Halfords, Shoe Zone and Steinhoff's UK arm which includes Poundland, Bensons for Beds and Harveys Furniture have blamed the fall in the value of sterling for an impact on profits.

"A lot of retailers took a massive hit on the cost of imports from Asia because of the weakness of the pound versus the dollar," Colley says.

"You've seen that materialising in virtually everyone's figures because no-one sources stuff from the UK any more. The pound weakening again is a big blow."

Richard Berry, founder of currency specialist Berry FX, suggests Colley's hopes of a sterling recovery may come true. "There are so many variables in play that the pound could even rise in the days ahead as the likelihood of a soft and more palatable Brexit increases," he argues.

"As perverse as it seems, political chaos could ultimately translate into sterling strength."

But other commentators have poured cold water on that suggestion.

David Lamb, head of dealing at Fexco Corporate Payments, insists there is "no end in sight" to sterling's woes, while Peel Hunt analyst Charles Hall observes: "In this environment, it would seem sensible to assume that sterling weakness is extended and the prospect of recovery is diminished."

Schuh boss Colin Temple worries that a prolonged period of inflation will prove the death knell for some retailers, who would lose customers if they are forced to raise prices.

"The retailers who are better organised and better perceived by customers will be able to cope with that, they just might not make as much profit," he says.

317

The number of seats held by the Conservatives after the election, down from 330



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**Wilf Walsh, Carpetright**

**I have long seen immigration as a positive for our sector. If this result leads to a softer Brexit, then retaining freedom of movement would be a positive outcome for me**  
**Jacqueline Gold, Ann Summers**

"If you're out there on a wing and a prayer and you're a marginal retailer, it's probably going to tip you over the edge."

### Consumer confidence

By and large, consumer confidence has remained relatively robust, albeit sometimes fragile, in the 12 months following the shock EU referendum result.

But fear appears to be growing among retailers that the election result – and the resulting feeling of uncertainty – could decimate shopper sentiment.

Retail tycoon Theo Paphitis warns: "You enter a spiral of consumer confidence and once it goes, the whole economy will start going backwards."

"Retail is an incredibly resilient industry, but the one thing we can't deal with is people not coming into stores and putting money in our tills."

"The chance of that happening is the highest it's been in my whole career, including after the crash in 2008."

"People felt that was a blip and they could hold on, but here they cannot see the end and that is the worry."

Pennycook adds: "I think we knew that we were heading into a more difficult period for the consumer post-election, simply because of Brexit uncertainty combined with disposable real incomes having gone negative. That's only going to get harder now."

"It's going to be a pretty tough consumer environment for the next couple of years."

However, while Temple

admits political uncertainty will make people "a little bit nervous", he doesn't think consumers will rein in their retail spending.

"[For] big-ticket spend like holidays, or perhaps if you were thinking about moving home, you might think twice," he says.

"Perhaps if the price of milk goes up, you might have to settle with having a pint without your whisky chaser. But I don't think that's going to happen right now."

O'Brien agrees that big-ticket retailers could suffer most from any drop in confidence.

He says: "The uncertainty over how Brexit will be handled may see a drop in consumer confidence. Many may be delaying making big-ticket purchases in the coming months."

### Domestic agenda

While Brexit dominated the Conservatives' campaign rhetoric, Labour made up ground on rivals by focusing on more domestic issues.

For retailers, those included business rates, corporation tax, immigration and the national living wage.

But Colley believes the Government will now "have so many other things to worry about" that such issues will be shunted firmly to the bottom of its agenda.

Pennycook agrees: "The concern,

given this new situation, is that any domestic agenda is going to be very hard to implement."

"The sorts of things that retail has been asking for, whether that's a review of business rates, or how we deal with the world of 'fewer, better jobs' for retail, that's all going to get crowded out now."

"It's going to be very difficult for a government, which was always going to be preoccupied with Brexit but is now going to be totally preoccupied with just carrying on week to week. It's going to be very difficult for them to focus on these long-term issues."

In their manifesto, the Conservatives pledged to make "longer-term reforms" to the business rates system and maintain corporation tax at 19%. It said there would be "new rules for a changing economy", including increasing the living wage and protecting those working in the 'gig economy'.

And on immigration, the party said it would "always ensure" that British companies can "recruit the brightest and best from around the world", and vowed to cut migration to "tens of thousands".

Having secured a minority administration, retailers will hope that is enough for the Tories to push through those policies.

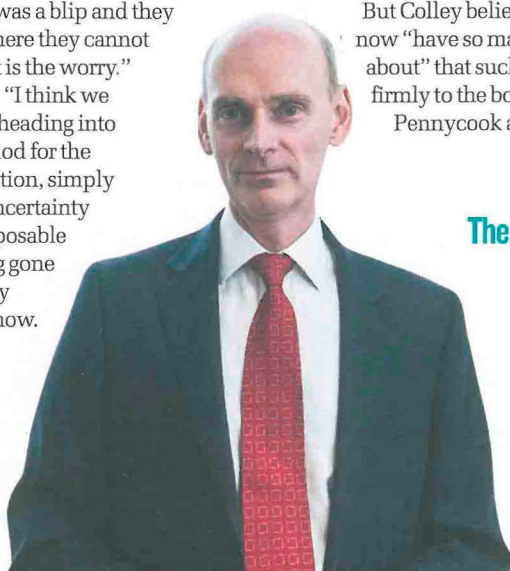
Ed Cooke, chief executive of Revo (formerly the British Council of Shopping Centres), believes the Government should look at the business rates issue sooner rather than later.

"Whatever shape the next government takes it must deliver reform to the system, and reduce the burden, to allow our industry to thrive and prosper," he says.

"Our businesses, communities and our places cannot be left wondering indefinitely."

"It is vital that the needs of businesses invested in towns and cities across the UK are not overlooked in the coming days."

But with day one of Brexit negotiations looming large, Britain's exit from the EU is certain to take priority. **RW**



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