

Impacts of Brexit on the Retail Industry

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With dedicated teams in key political and commercial capitals, FTI Consulting is well placed to help you navigate your Brexit challenges and manage commercial risk.

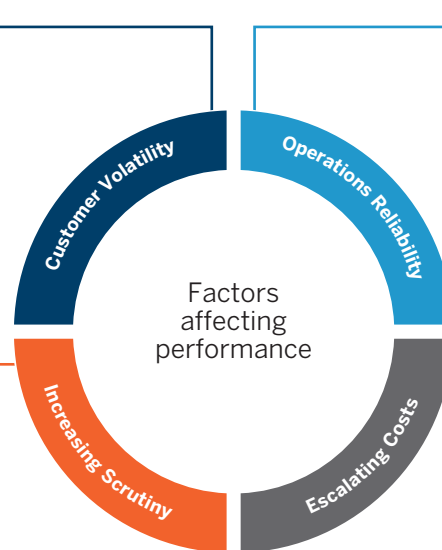
The Retail industry faces multiple issues impacting performance

CUSTOMER VOLATILITY

- Highly sensitive to economic downturns
- Brand loyalty is diminishing
- Customer journey from offline to online is becoming more important – but cultural resistance within businesses
- Increase in mobile shopping is impacting in-store pricing

INCREASING SCRUTINY

- Ethical sourcing and manufacturing
- Employee contracts (e.g. zero hour) and working conditions
- Financial transactions and pension account deficit
- Social responsibility and waste



OPERATIONS RELIABILITY

- Integration of multi-channel retailing
- Returns management becoming complex and costly
- Uncertainty over UK-EU data flows if UK classified as third-party country
- Streamlining stock management

ESCALATING COSTS

- Rising employee costs
- Depreciation of Sterling
- Increases to business rates
- Rising fuel and commodity prices
- Escalating pension costs and deficits

Brexit adds further complexity - potential long-reaching impacts on ease of doing business and profitability levels

Economy and consumer preferences

- General economic uncertainty
- A slowing economy - or perception of such - could result in reduced UK consumer spending
- Shoppers increasingly spending less on merchandise and more on entertainment and the 'shopping experience' - could lead to reduced demand

Products standards and policy regulation

- UK retailers selling to the EU will still have to conform to EU standards and wider trade policies and regulations
- UK retailers will be impacted by UK's loss of influence on EU policy, standards and regulation setting
- Differences in UK-EU policies/ standards could increase compliance costs and product lead times for UK retailers – making them less competitive
- Currently significant issues with EU labeling. Opportunity to reduce compliance burden in the future

Duties and taxes

- World Trade Organisation rules to apply if no free trade or transitional agreement reached
- Products sourced from EU and other countries /regions could become more expensive
- Additional time and costs in administration and customs clearance charges may reduce demand of UK goods/services

Access to labour

- UK retail sector relies on 300,000+ EU migrant workforce
- Logistics and supply chain particularly dependent on migrant labour
- Retailers employing UK nationals to fill positions to guarantee continued operation could lead to increased labour costs

Sterling fluctuations

- UK retailers selling into EU benefit from weak value of sterling
- UK retailers importing from EU face increased costs, reduced profits and reduced demand if prices are passed on to consumers
- Risk of significant currency fluctuations during negotiation process may impact UK retailers' performance

Trade agreements with other countries

- UK retailers import from EU Member States and other countries who have trade agreements with the EU
- For prices of UK retailers' goods/services to remain competitive, the UK should seek agreements with non-EU countries

Brexit checklist: **What should you be thinking about?**

- ✔ Obtain political and regulatory insight and intelligence to create clarity
- ✔ Address any potential commercial and operational requirements
- ✔ Ensure you have the right financial and investment strategies in place
- ✔ Monitor and influence legislative programmes to protect commercial interests
- ✔ Consider any corporate restructure, valuation or business modelling needs
- ✔ Mitigate any tax risks
- ✔ Undertake market analysis and economic scenario modelling to inform your business decisions
- ✔ Understand the implications for your governance, trade and investor protection rules
- ✔ Engage all your internal and external stakeholders effectively across all platforms

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EXPERTS WITH IMPACT

About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities.

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