

Brexit's mixed bag: good for scotch, bad for washing machines

Graham Ruddick and Angela Monaghan - Thursday 26 January 2017 13.31 EST

(The Guardian) The contrasting impact of Britain's vote to leave the European Union on business was underlined when some of the world's largest companies warned it had hiked food prices and lowered demand for household appliances on one hand but raised overseas profits for British companies on the other.

Unilever, the consumer goods group; Diageo, the owner of Guinness and Johnnie Walker; and Whirlpool, the world's largest maker of home appliances, all flagged up the impact of Brexit in their financial results on Thursday.

Unilever said it stood by a controversial decision to raise the price of Marmite in response to the weakening pound – which led to a row with Tesco – saying other food manufacturers have followed suit by hiking their prices or reducing the size of their products.

Drinks group Diageo said the fall in sterling will flatter its full-year sales by about £1.4bn and boost operating profit by about £460m. The company has benefited from the weak pound because a high proportion of its earnings are from overseas sales registered in dollars. In the first half of Diageo's financial year to the end of December, sales rose 15% to £6.4bn with pre-tax profits up 16% to £2.1bn. Diageo shares climbed 77p to 2218p, the biggest riser in the FTSE 100. Unilever shares were mostly unchanged.

However, US-based Whirlpool warned it has taken a \$40m (£32m) hit in the UK due to the weaker pound and falling demand for its products, which include washing machines and dishwashers, due to uncertainty following the referendum.

Ivan Menezes, chief executive of Diageo, welcomed Theresa May's update on her ambitions for Brexit and said the key thing for the drinks group would be opening up export markets.

"The clarity on Brexit that we now have is very helpful," he said. "Secondly, the impacts for Diageo are net neutral to positive, depending on when we open up new markets and FTA agreements [free trade agreements]."

"We're getting a tremendous level of support from the government. The key here is opening up export markets and creating the conditions for Scotch to thrive. It's one of the leading export businesses in the UK."

Menezes said from Diageo's point of view he would like to see the government prioritise a trade deal with India "because the duties are so high on scotch whiskey."

Paul Polman, chief executive of Unilever, said the company's decision to raise prices was "definitely the right one" given that sterling had fallen against the dollar by 16% last year.

He said Unilever, which also makes household brands such as Flora margarine, Magnum ice-cream and Dove soap, had to balance "value for money" for shoppers with "long-term" factors.

Polman added: “That is true for us and true for others, otherwise you end up being unsustainable.”

Tesco, Britain’s biggest retailer, removed Marmite and other household brands made by Unilever from its website last October, after the manufacturer tried to raise its prices by about 10% owing to sterling’s slump after the Brexit vote.

Tesco and Unilever resolved their dispute, but the price of Marmite has risen sharply in UK supermarkets.

The Unilever boss said that since the company raised prices many other items – including own-brand supermarket products – had risen in price or shrunk in size, a process known as “shrinkflation”.

Polman was speaking as Unilever reported revenues had fallen by 1% to €52.7bn (£44.9bn) in 2016.

Although underlying sales rose 4.3% at constant exchange rates, a negative currency impact of 5.1% dragged down revenues. However, pre-tax profits for the year rose 3.4% to £7.5bn.

Polman said 2016 had been an “unpredictable year” but Unilever had “demonstrated resilience”. Sales rose by 6.5% in emerging markets, driven by Asia and Latin America, but developed markets dropped by 0.2% as a rise in the volume of products sold in North America was offset by price deflation in Europe.