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Discuss how a change in the sterling exchange rate might affect the ability of SHL to achieve its strategic objectives. (18)

The sterling exchange rate is the price of the UK currency in terms of another country’s currency for example the Chinese Yuan. For this question I will be assuming an appreciation of the Sterling currency.

One way that SHL will be affected is their sales abroad, currently the sell to customers in Italy and as far out as Australia; by seeing the pound appreciate, SHL’s products in these countries will also see an increase in price and seem more expensive to the foreign consumer because the products are more expensive to import from England where SHL’s head office and distribution centre are located. Given that from the case study some of the men’s ranges are price elastic this could see a large decrease in the sales of mens clothing abroad meaning that not only will SHL lose out on revenue that they need to achieve their £70m sales revenue target, they will also be losing out on the export % of sales revenue that was previously gained from the sale of mens clothes abroad. This means that SHL will have to sell more of the items that are price inelastic such as the women’s range or even have to lower their prices for these areas to keep them at a rate in which customers are willing to purchase. The effect that this will have on SHL is a lower total sales revenue figure and ultimately it will make it more difficult for them to achieve their objectives associated with sales abroad. The impact of this does have to take into account the actual level of appreciation of the pound and whether or not the currencies of the countries exported to have also changed, if they have risen by the same amount then there will be no impact on prices for SHL consumers abroad and SHL will be able to charge the same prices. Also the elasticity figures given to us are only on a selected number of products and is very narrow given that we are told SHL has got a wide product portfolio; therefore, we are unable to make any real judgements as to whether the price increase would actually have a big impact on levels of demand and whether SHL are able to expand their presence abroad. By prices increasing SHL may even be able to achieve their objectives as 3 purchases of the new priced products may be the same as buying 5 of the previously priced items, this could help SHL not only increase total revenue to £70m but also will help them to achieve a greater proportion of revenue abroad as an exported product will bring in more revenue than the same item in the UK because of the price increase and transport costs added to the cost of production.

Another way SHL will be changed is their cost per unit should have decreased, if the sterling appreciates more than the Yuan and other currencies that they trade in with suppliers then SHL will be able to buy more stock than before because the cost of this stock will be lower. This can help them achieve their 40% of sales revenue harveydirect target as the distribution centre will be able to have more stock held and will therefore run out of stock less frequently meaning that customers who shop on the website will be able to have a greater experience as the items they want to purchase would still be in stock as SHL are able to purchase more. By holding more stock SHL will be able to increase their total revenue even if that means cutting profit margins in the form of discounts as we are aware they have done before, this is because once they have the stock they can use sales promotion to offload it as it is classed as a liquid asset. We know from the profit and loss accounts that their stock turnover is 108 days, whilst this is not good at the moment, with more stock than before, SHL can greatly reduce this time and turnover stock more easily because they know that they can buy in greater bulk than previously. The issue with this greater stock holding is the impact it will have on their cash holding. Currently their position is weak at £107,000 in cash which for a company turning over about £51m is a worry that they may run into cashflow problems. Also we can see that they are holding more stock than the previous year any way and as this is not being turned around quickly currently, SHL may need to focus on how this can be improved before bulk buying more products if the exchange rate appreciates.

Overall, I think that SHL will benefit from an appreciation in the sterling exchange rate, this is because in reality the rise will not be significant enough to deter current customers abroad from purchasing SHL products and will mean that SHL can add extra revenue on their products with each sale, the main advantage to SHL is the overall savings they can make on their cost of sale. By imports becoming cheaper for SHL, they will see a large total gain as even a £0.50 saving on each item of clothing will result in a good saving given the large number of products that SHL deals with when it orders from its suppliers, this will help them to be able to turnover stock much more easily as they can, if necessary discount at a greater rate in order to attract demand as SHL have already made large cost savings with the cheaper import price, this will lead to SHL getting closer to their £70m sales revenue target as they can sell a greater volume of items, be it at a lower price potentially. SHL will be able to reduce their risk by imports becoming cheaper as well because the impact of rising inflation will be negated if the level of appreciation is high enough, this means that SHL will not have to look at alternatives to their current supplier portfolio in the short term meaning that they can focus more on achieving their main £70m sales revenue objective. I think that the sterling exchange rate does have a large impact on whether SHL will achieve their objectives or not as it will change their focus as imports will become cheaper given an increase in sterling exchange rate and this could even allow SHL to lower their prices abroad to make the price stay the same for customers abroad.