

June 2009

## An interview with Paul Cannings, Director of the Chandos Fund for YFM Private Equity

### Every recession throws up opportunities but have you thought about retail and consumer brands?

- *Retail, why now?*
- *Is anyone thinking of growth?*
- *Are certain sectors better than others?*
- *Tips*
- *Where next?*



#### ***Invest in retail and brands at the moment, have you gone mad?***

Private Equity investors typically take a 5 year view so investing in economic downturns should make sense. Indeed when the investment team at YFM Private Equity looked at our track record of investing over the last 20 years that was exactly what we found – our best returns came from investments made in the Lawson bust recession of 1990-92 and when the tech bubble burst in the downturn of 2000-02.

We also know that when investing in small and medium sized businesses an excellent way to create value is to launch a new brand in the market or to prove a retail concept by roll-out.



#### ***But aren't consumer businesses just battenning down the hatches to try and survive at the moment?***

The market is tough at the moment and of course some consumer businesses are struggling to survive. But at YFM Private Equity we specialise in investing in small niche business often with new products or new approaches to market which can create businesses and build market share even when general consumer demand is falling.

We recently held a dinner for CEOs and chairmen who run small and medium sized consumer businesses and we asked them what they were doing to win in a recessionary market. Almost all of them saw this as an important time to take market share and leave competitors behind when recovery comes.

As **Peter Hartley** said "In a retail business, you can't just keep cutting costs when things get tough – ultimately you've got to grow top line to stay in business". **Paul Caplan** added "at the moment customer acquisition costs are falling (eg lower TV advertising costs) and for a business like **Go Outdoors** which is rolling out new stores, the long rent free periods and reverse premiums in the property market brings forward store profitability"

#### ***But this can't be a good time for all consumer sectors?***

No it isn't – in the short term some sectors are suffering. **Geoff Brady** has long experience in the luxury goods market and commented



"The objective is not to survive but to position your business to be stronger when climate improves. Demand for luxury goods does fall in a recession but this creates pent up demand which means a strong performance in a recovery. Generally the smaller independents will do better than the established majors because they are fast on their feet and work hard on improving customer experience to build reputation during the tough times."

**Keith Ellis** added "the food service sector has good parts and bad. The businesses focussing on creating fantastic value for money at the cheaper end of the market will fair well but the downturn will create failures at the top end where customer experience and perceived value for money is poor."

#### ***Did they have any tips for which sectors private equity should be focussing on?***

In the last 5 years online retailing has changed out of all recognition. **Nick Jenkins**, founder of moonpig.com commented "Social networking sites such as Facebook are fascinating as a really powerful social phenomenon, but it is unrealistic to think that consumers will spend much of their time promoting your products. From an advertisers' point of view their main value is as a medium for online advertising and in our experience the quality of traffic generated from them is no different from the traffic generated from other types of websites."

**Rob Pascoe** added "innovation is also key. At Gro Group we continually invest in new product development to keep one step ahead of the competition and to provide fresh and exciting products for our customers. Often, only small businesses are nimble and fast enough to do this"



**Sounds like the mood was upbeat?**

It was. This was a group of highly experienced retailers and consumer brands experts so everyone recognised that there are no easy wins in today's climate. But, recession is the time when younger smaller businesses led by seasoned entrepreneurs can come out on top in the retail and brands market by being smarter, more innovative and bolder than their competitors, recognising that the costs of expansion are less so you can achieve more.

**The YFM Private Equity Retail and Consumer Brands Dinner was attended by:**

**Peter Hartley** – previously Blacks Group now non exec of **Go Outdoors**

**Paul Caplan** – chairman of **Go Outdoors**

**Rob Pascoe** – MD of **Gro Group**

**Nick Jenkins** – founder of **moonpig.com**

**Mark Evans** – MD of **The Retail Group**

**Terry Stannard** – previously **Uniq**

**David Pearson** – previously CEO of **Focus DIY**

**Mark Sater** – previously **Caterpillar** and **Ben Sherman**

**Keith Ellis** – previously global head of food and drink sector for **3i**

**Geoff Brady** – previously **Superdrug**, **Allied Carpets**, **Mercedes Benz**

**Hugh Clark** – previously **Clarks Shoes** and CEO of **Rohan**

**David Carman** – previously CEO of **Franklin Mint** and **Quantum International**

**Paul Cannings**, **David Gee** and **Michael White** – **YFM Private Equity**

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\* source Private Equity Insight based on the number of deals completed in the 12 months to June 2009

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