Is your business Brexit-ready?

Looking at how UK businesses can best prepare for the potential changes that the UK's exit from the EU will bring

A white paper from Pegasus Software

November 2016

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Post-Brexit economics

Without a doubt, the 2016 Brexit vote will have a major effect on UK businesses. With the triggering of Article 50 of the Lisbon Treaty scheduled for March 2017, the UK looks set to leave the EU by summer 2019, meaning that for the UK's business world, now is the time to start planning for a post-Brexit marketplace.

Depending on who or what you believe, UK businesses are either on a collision course with failure, about to buckle under the pressure of a 'dramatic deterioration' in economic activity, or all set for success, with the FTSE 100 reaching new highs for 2016 and a 0.6% growth in GDP beating all forecasts. In uncertain times like these, the most important question is how to best prepare for all eventualities.

This white paper examines the pressures businesses are facing in this post-referendum climate of uncertainty, with a particular focus on the manufacturing, retail and distribution sectors. It explores the strategies, processes and solutions needed to ensure businesses are Brexit-ready, prepared to stand firm against the challenges and pressures they might face, and considering the opportunities for driving growth. It aims to look beyond the here-and-now and explore ways for increased profitability and a strong UK presence on the international business stage.

Five months on from the Brexit referendum, and the pound is one of the world's worst performing currencies of 2016, now worth 20% less against the dollar than it was before the vote. With the EU accounting for 44.6% of the UK's exports for goods and services and with 53.2% of the UK's goods and services imported, the inflationary pressure caused by the devaluation of the pound is squeezing European supply chains ever tighter. Add to this the announcement that the UK rate of inflation rose to 1.0% in September 2016 and it becomes clear why many UK businesses are fearful of what comes next.

So what does all this mean for UK industry? By taking a look at three different UK industries, it's possible to build up a picture of the realities of doing business in a post-referendum climate.

Manufacturing

The EEF's most recent Manufacturing Outlook report predicted that manufacturing will grow in 2016, with things not looking so positive for 2017 due to a forecasted fall in output of 0.7%. The sterling depreciation has led to a substantial rise in export orders but, on the other side of the coin, import prices have gone up, as have production costs, squeezing tighter the already narrow profit margins that manufacturers have been struggling with for a number of years now.

It's not all negative though. After an initial confidence crash, accompanying these increased export orders is a new-found confidence in manufacturers' ability to grow their businesses, looking beyond 2017 to the new opportunities that Brexit could bring in terms of expanding trade horizons. But, the air of uncertainty surrounding what a Hard or Soft Brexit will look like still puts a dampener on growth, with many manufacturers currently not confident enough to commit to major capital investment decisions.

Retail and wholesale

The most recent Retail Sales Monitor from the British Retail Consortium (BRC) reported an average growth in total sales of 0.9% over the past 12 months, the slowest since the BRC began publishing the report in 1995. And, with the 'disagreement' between Unilever and Tesco perhaps symptomatic of a wider retail industry malaise, the retail and wholesale sector are, like many others, going through a testing time.

With ongoing volatility in consumer spending combined with years of falling shop prices and ever-increasing costs for retailers and wholesalers alike, there is already limited scope for them to keep absorbing these pressures. Famous for their ability to manage cost increases without passing these on to the customer, retailers will be hard pushed to continue in a similar vein considering the devaluation of sterling in relation to the dollar and the euro (the UK's two principal trading currencies).

In the short term, retail and wholesale companies may have been able to protect themselves to a certain extent through smarter procurement and forward currency purchases, but this definitely isn't a sustainable, long-term solution. With businesses starting to mitigate against the impact of ever-increasing import costs, all signs point to further price rises for customers, prices that would need to rise further still if the UK had to default to World Trade Organisation rules in lieu of a 'good' Brexit deal.

Distribution

In a survey issued two weeks before the referendum, over 80% of the logistics and supply chain professionals who responded said they had no contingency plan in place if the UK was to vote for Brexit, something that might be regarded as somewhat of an oversight for an industry on which so many other sectors rely.

To a certain extent, much like any other, the distribution industry is on standby, waiting for the Government to negotiate trade agreements, but there are already a number of potential repercussions that the industry must take into account. Trade negotiations with other, non-EU countries might achieve buoyant export levels but this could still lead to less demand for road haulage, for example, as these new customers might not be so easily accessible by road. As Professor Alan Braithwaite from the Chartered Institute of Logistics and Transport (CILT) points out, however, any changes aren't likely to be immediate. He adds that "Established patterns of trade are difficult to change quickly because of capacity, and all the time trade flows, we will need logistics."

The predicted tightening up of border controls can potentially impact efficiency levels, with goods moving slower due to administrative hold-ups. And with exports affected by trade tariffs within the EU and the devaluation of the pound, these are costs that suppliers may well pass on to third-party distributors in the hope of protecting their profit margins. In short, we just don't know exactly what the ramifications of Brexit for the distribution industry will be.

In the midst of all these unknowns, one thing is for certain, and that's the need for organisations to have systems in place to not only better control their operations, but also to cope with any changes that may arise, addressing any issues in a timely manner.

During the recent global financial crisis, the companies best able to weather the storm were those with the right processes and procedures in place to respond quickly, accurately and efficiently to an ever-changing business landscape. Those that possessed the necessary levels of agility to respond to and evolve in line with the changing nature of the markets were the ones who not only survived economic uncertainty, but prospered in the face of adversity.

The same is true for surviving in a post-Brexit UK, whatever that might look like. When you have the right solution to meet not only the specific needs of your business but also the specific needs of the sector in which you operate, the potential is there to optimise internal processes and find cost, time and efficiency savings. Technology has the potential to be a key differentiator, with single enterprise solutions integrating all functions within an organisation and providing decision-makers with the necessary levels of control and visibility across all areas of the business.

Focus on visibility

More than ever before, it's vital to ensure good cashflow by putting in place stringent credit management processes. For optimum levels of visibility and control, a centralised system which consolidates all information necessary for effective credit control is a must. With real-time information displayed in an accessible, graphical format, managers and credit controllers can view their overall financial status, and drill down to see what is owed, who owes it and how much has been promised. This facilitates the ability and oversight to improve the financial position of the business, shoring up the finances to withstand any sudden changes in market conditions.

The same can be said of robust cost control, with the right system enabling the precise tracking of costs and revenues against budgets. Again, this provides the comprehensive, real-time information that's vital for optimising agility, informing and underpinning all key decisions with timely, accurate data.

Uncovering opportunities

While it's vital to have the right financial processes in place to mitigate against any Brexit uncertainties, the need for progress to continue is equally vital. Awaiting more details on the form that a post-Brexit UK will take doesn't mean that business should stand still. And in order to identify new avenues to bolster profitability or to even compensate for potential shortfalls, a holistic view of the business is required.

Again, here, technology can be a key enabler, with Business Intelligence solutions amalgamating and analysing real-time, accurate and comprehensive data from across the business to provide hard facts which will shape well-informed, timely decision-making, enabling businesses to proceed, even if it is with informed caution.

By providing key business data, again in an accessible and easy-to-understand format with the ability to drill down to underlying data, the right BI solutions enable management teams to pinpoint trends and issues, while providing the right information to facilitate quick, effective action.

The Brexit opportunity

The need to update, adapt and modify processes to become Brexit-ready actually represents a real opportunity for all UK businesses. The evaluation of existing procedures should highlight inefficiencies and lead to improvements throughout the organisation.

It also represents an excellent opportunity to re-tout your business wares. In the wake of the Brexit vote, many EU companies will be carrying out re-evaluation exercises, just as UK companies are, to ensure they're ready to do business in a post-Brexit marketplace. Companies who can show themselves to be up-to-date, technologically innovative partners delivering excellent, cost-effective products and services on time, every time, will be putting themselves in the best position for companies abroad to continue to do business with them.
In uncertain times, the least risky option is usually the most popular.

2017 and beyond

The investment in infrastructure that the Chancellor announced in the 2016 Autumn Statement is intended to absorb some of the shocks which will be inevitable once Brexit changes begin to take effect and to lay the foundations for recovery of any potential losses. But as well as relying on and welcoming any government intervention, each business also needs to take its own initiatives and prepare for its own future. With the next few years set to be challenging for businesses not only in the UK but across the globe, a continued and consistent focus on core disciplines such as visibility, cost control, credit management and informed decision-making is the only way to proceed.

It's only by having your own house in good order that you can hope not only to survive in a post-Brexit business world, but also to thrive, by seizing the new opportunities that only change can bring, and stealing a march on those who prefer to play the waiting game until the post-Brexit dust settles.

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