What to do to survive Brexit

1 Introduction

Brexit only happens after Article 50 has been triggered and the EU rules state that any new agreements should be in place within 2 years of this trigger. Hence Brexit itself will most likely not occur until sometime in 2019.

Hence, as a business, consideration needs to be given to what happens and what might be done as a business in a) the 2 year period up to brexit, and b) the period thereafter post brexit.

To obtain a handle on the issues it helps if you know what type of business you are from the revenue growth point of view. Is your business?

a) Growth

i. **Rapid growth** (gazelles)
This category typically have >20% turnover year on year

ii. **Modest growth**
Often those wanting low risk growth options [0-19% annual growth rates]

iii. **Static**
Happy with where they are, often family businesses. Don’t want to invest more money, don't want hassle etc. Often approaching retirement where business does not have any great value and unlikely to be sold; 'winding down'.
Unfortunately no growth means reducing incomes after allowing for inflation.

b) Exporter / importer

Export / import to / from EU, non-EU, both or neither?

c) Provides products or services?

Does it offer products or services or both?

d) Customer segmentation

Is it a B2B or B2C business?

The answer to these creates 108 categories of business!

2 Period from triggering of Article 50 to exit in c. 2 years

- **Probably not a lot of change for many?**
  - exchange rates down which is favourable for exporters, but bad news for importers
  - for B2C businesses will consumers still spend?
  - for B2B businesses will businesses still spend
  - will interest rates rise
  - will inflation rise?
  - if growth generally falters will there be a recession and what impact might it have?
  - will government improve situation for businesses e.g. reduce corporation tax, increase R&D tax credits etc.; in some cases what the UK Government could do was limited by EU rules?
  - if you export what is the proportion of exports to EU and non-EU countries?

- **What might businesses do in this c. 2-year period to ensure success?**
  - mitigate uncertainty wherever possible
  - make sure ready for exit
  - adapt products / services as necessary
  - identify and develop both existing customer base and post exit customer base (they may be different). Use technology to advantage
  - For high growth companies they will want to hit the ground running and will need to have their new markets and customers ready
  - <u>Non EU countries</u>
    - Sales can continue as now since trading will be as per existing EU rules. However it would pay to have discussions about what the new trade rules might be like after brexit so that both sides are prepared.
  - <u>EU countries</u>
    - Sales can continue as now since trading will be as per existing EU rules. However it would pay to have discussions about what the new trade rules might be like after brexit so that both sides are prepared. EU regulations relating to products in particular will still apply for exports to the EU.
    - Marketing strategy - make sure you stand out
  - tighten credit control
  - stick to budgets!
  - reconsider any decisions that will not have an immediate positive impact on profitability
  - In some cases it might be appropriate to invest e.g. in new products, plant and machinery, staff, training etc. ready for brexit
  - In others maybe the best thing to do might be to conserve cash in the lead up to brexit as a buffer for what might lie ahead post brexit and perhaps also to be in a position to take advantage of opportunities as they arise post brexit.

3 Post Brexit - from Brexit date onwards

Successful businesses will have done their homework in the lead up to brexit, got their ducks in a row, and will be ready to take advantage of the opportunities that post brexit might generate.

3.1 Certain things will change post brexit including

- **Trade Agreements and tariffs**
  - **For the EU**
    - Hopefully a single trade agreement with the EU will have been signed by the time of brexit. What such a trade agreement will look like is by no means clear. It could be that trade is as per now (if the UK accepts continued freedom of movement of people) with zero tariffs. However if no such deal is reached then the most likely outcome is the standard WTO (World Trade Organisation) standard tariffs will apply, which are up to 10%. Note however that exchange rates have already changed by > 10% and, if they do not revert to pre-referendum levels, this change would negate the WTO trade tariff worst-case scenario. There could be an intermediate compromise as another option.
    - Note the Norway and Swiss agreements are unlikely to be adopted because they require freedom of movement of people.

  - **For non-EU**
    - New trade agreements will need to be negotiated individually with up to 50 countries outside of the EU, the most important being the USA, Canada, Australia, India, China, Brazil amongst others. This is challenging task and whether it can realistically be achieved within 2 years remains to be seen.

- **Exchange rates**
    - The big question is whether the money markets have already factored in brexit such that exchange rates will change much on brexit. They have already gone down which is favourable for exporters, but bad news for importers. If they go down further then this exaggerates the advantages for exporters but is a bigger problem for importers, and ultimately consumers.

- **Interest rates**
    - These have got to go up eventually. Whether brexit triggers an increase is unclear. If rates increase by a modest amount then the implications may not be significant. If they increase rapidly to 5% or more then the implications for businesses, and indeed consumers, could be more worrying.

  The above factors, if they move in an adverse direction, might lead to a recession, i.e. where the national growth in terms of GDP in two successive quarters is negative.

- **Government support for business**
    - The UK government will be free to improve the situation for businesses for instance by reducing corporation tax, increasing R&D tax credits etc.; in many cases the UK Government was previously restricted by EU rules as to what it could do to support UK business.

- **Sectors previously supported by EU finding**
    - These include agriculture and support for R&D. How the UK Government

decides to treat these sectors post brexit is still unclear at this time. Businesses operating in these sectors will need to be particularly careful about their business plans until clarity is obtained.

3.2 What might businesses do post brexit to ensure success?

- **Sales**
    - Develop a pro-active sales campaign
    - Identify and develop both existing customer base and post exit customer base (they may be different).
    - Use UKTI as necessary

- **Product development**
    - adapt products / services as necessary and in plenty of time in advance of sales need
    - ensure products meet local standards etc.
    - ensure differentiation vis-a-vis competitors

- **Operating costs**
    - Due to the uncertainty of exchange rates, interest rates and trade tariffs it would be prudent for all businesses irrespective of whether they are exporting or importing or neither) to improve their efficiency levels and reduce operating costs so as to better accommodate any down-side changes in these parameters.
    - It might not be prudent to reduce staff levels unless they are clearly some super-numary positions and have been for some time.
    - Consider selling unused assets

- **Maximise cash position**
    - Whereas a business might normally invest surplus cash in plant and machinery, or in dividends, it would be more prudent to increase cash reserves until the full implications of brexit for individual businesses is clear.
    - Consider invoice factoring which improves cash flow and deals with bad debts (albeit at a cost)

- **Reduce debtors**
    - Chase debtors to maximise cash flow
    - Consider getting credit insurance against bad debts if they might be a problem in the future

- **Check current ratio**
    - Current ratio is current assets divided by current liabilities (taken from balance sheet). The ratio for nearly all businesses should be > 1, and generally the higher the better.