BARCLAYS

How to navigate Brexit

Our guide to the biggest challenges, the opportunities, essential risks, and the best approach on all fronts

Come what may politically, the terms of the UK's departure from the European Union will soon be known. The impact of that political and trading change will then be a reality for companies across the country. How should business leaders approach today's uncertainties around Brexit – and be ready for whatever is coming? Trade barriers are one prospect, of course, and the availability of European talent to UK workforces will also likely be on different terms.

Relationships and partnerships will be reset for many businesses, too. Those companies with European customers and suppliers could well see the terms of their engagement shift, along with the capability of the business to deliver its product or service.

Our guide to navigating Brexit looks at the biggest challenges, the opportunities, essential risks, and the best approach on all fronts

For nearly every business, and particularly those with established trading relationships and customers in Europe, the question of how Brexit plays out matters hugely.

You might imagine that large corporates will have one approach – with risk committees, scenario-planning and the like – and SMEs another. But really it's truer to say that every company needs to work out its own position based on the available facts and their own circumstances. Every internationally-minded business relies on free trade, open borders and more, so the risk of any barriers to that is significant and needs addressing. Non-tariff barriers are mostly what concern companies when it comes to Brexit, but tariffs may present an issue for some.

European suppliers and relationships

Companies with supplier relationships in Europe should already be thinking about these partnerships post-Brexit.

Kim Jones, who advises company directors and their boards for the business consultancy High Growth Knowledge Company, says it's important to remember, too, how intertwined with Europe even small UK businesses are.

"So many businesses have a European dimension to aspects of their operations. That's especially true of the very strongest, high-growth companies, of course. The question for tens of thousands of companies, when it comes to Brexit, is what strategies can be adopted to re-establish some certainties that today's context may have weakened."

Sometimes these uncertainties have to do with the cost of materials, and the impact of exchange rates on budgets, as Jones notes.

"Budgeting is a challenge for companies that have exchange rates in the mix – but businesses that can plan for this will generally do better."

Talking to banks is part of the picture here. Foreign currency decisions and the management of the treasury function are important disciplines, and many investments in materials or stock will need extra working capital that might need to be funded.

The companies that succeed best around these decisions, and plan ahead, are those that aren't afraid to talk about their needs with their European partners and with their advisers and funders so they have a rounded picture of their options.

"One company we support buys 100% of its raw materials from the EU in a market with fluctuating prices that can be exaggerated further by currency movements. How does it address the extra uncertainties from Brexit? For now, it has invested in sufficient suitable UK warehousing space to be able to buy forward to and acquire a whole year's stock – so that's what it has done. The investment has needed external funding and has been the right move for certainty of supply."

"Budgeting is a challenge for companies that have exchange rates in the mix – but businesses that can plan for this will generally do better."

Logistics and shipping

If supplier relationships with Europe touch on logistics risks, there's lots more to unpack in relation to shipping to customers as well as buying in from a European supply chain.

The cost and availability of materials coming from Europe is one variable, but wrapped up in this dynamic are lots of practical considerations and the question of which essential supplies cannot afford to be compromised.

"Sometimes product is perishable," notes HGKC's Jones. "Certain food supplies simply cannot afford to get stuck in transit because of customs issues in a post-Brexit world with more friction at the border. For some companies, that is potentially a big issue that needs a solution. Should the company opt for temperature-controlled vehicles, for example, in case of hold-ups? Is there the potential, in the short-term at least, to manage, track or prioritise orders differently to minimise certain risks?"

There are extra costs to consider along the way, naturally, alongside potential added risk, so these aren't always simple decisions at the margins of a business. Many are putting such risks on the agenda of the main company board, as Brexit moves nearer.

It's not just food that could be affected by delays, either, it's worth noting. One company that's been impacted by Brexit is a veterinary chain that's now making plans related to the security of the vaccines it ships in from Europe, ahead of the 2019 spring vaccination season on UK farms.

"Vaccines require correct storage and don't last terribly well," says Jones. "So some veterinary chains are choosing to stockpile vaccines to ensure sufficient supply as far ahead as they can, and particularly with next year's uncertainties in mind."

In more predictable times, a company would take a just-in-time approach and order as late as possible to avoid stockpiling product, but in today's context that comes with added risks. Those risks are also exaggerated when a company is relatively small and doesn't have the buying power to make demands of its suppliers or to mitigate risks by agreeing particular contract terms.

The question of delays in transit through customers is potentially even more risky when you consider the shipping of goods to European customers from the UK.

One family-owned sports goods company, FreestyleXtreme, says the risks for it related to shipping and Brexit are acute enough for it to have already set up alternative warehousing arrangements in the form of a failsafe back-up warehouse in Germany.

Managing director Shaun Loughlin says he cannot afford to wait to find out the terms of the UK's departure.

"If we are shipping goods to European customers from the UK and I have to factor in border delays and my European competitors don't, we will likely lose that sale. Equally, if we are shipping in product from Europe and there are tariffs to pay and delays too we become less competitive. In the circumstances, how can we not be thinking about shipping delays after Brexit? About 70% of our total product comes from Europe and about 50% gets sold back into Europe. It would be remiss if we didn't enact contingency plans in the circumstances, and that's what we've done."

Staffing and recruitment

Freedom of movement of EU citizens to live and work anywhere in the European Union has been at the heart of the European project in the past four decades.

The final deal of Brexit will most likely restrict this. Not surprisingly, just the prospect of Brexit placing limits on the rights of EU workers in the UK has already curbed the flow of UK-bound workers from Europe, ahead of the UK's anticipated exit.

For companies like FreestyleXtreme, what does Brexit mean for recruitment now and in the future?

"We employ 85 staff, but UK recruitment has become harder in the past two years, with net migration having fallen and fewer experienced and talented Europeans applying for roles," says Loughlin. "To get around this new reality, out of pure necessity we have opened an office in Bucharest in Romania. We are moving administration based roles there, and haven't had to make any UK redundancies. It's a move that gives us the flexibility we need, because we simply don't have an option to sit tight and wait with our fingers crossed for the detail of the trade deal that's finally struck." Despite some companies like FreestyleXtreme deciding to get a head start, the government has repeatedly said that they are committed to ensuring that UK and EU researchers, universities and businesses will be able to continue to collaborate after EU exit."

Loughlin's guiding principle, in all his moves, but particularly in relation to staffing, has been to set up structures that are immediately advantageous but that can also be undone if the terms of Brexit give FreestyleXtreme the flexibility and certainty to unwind things.

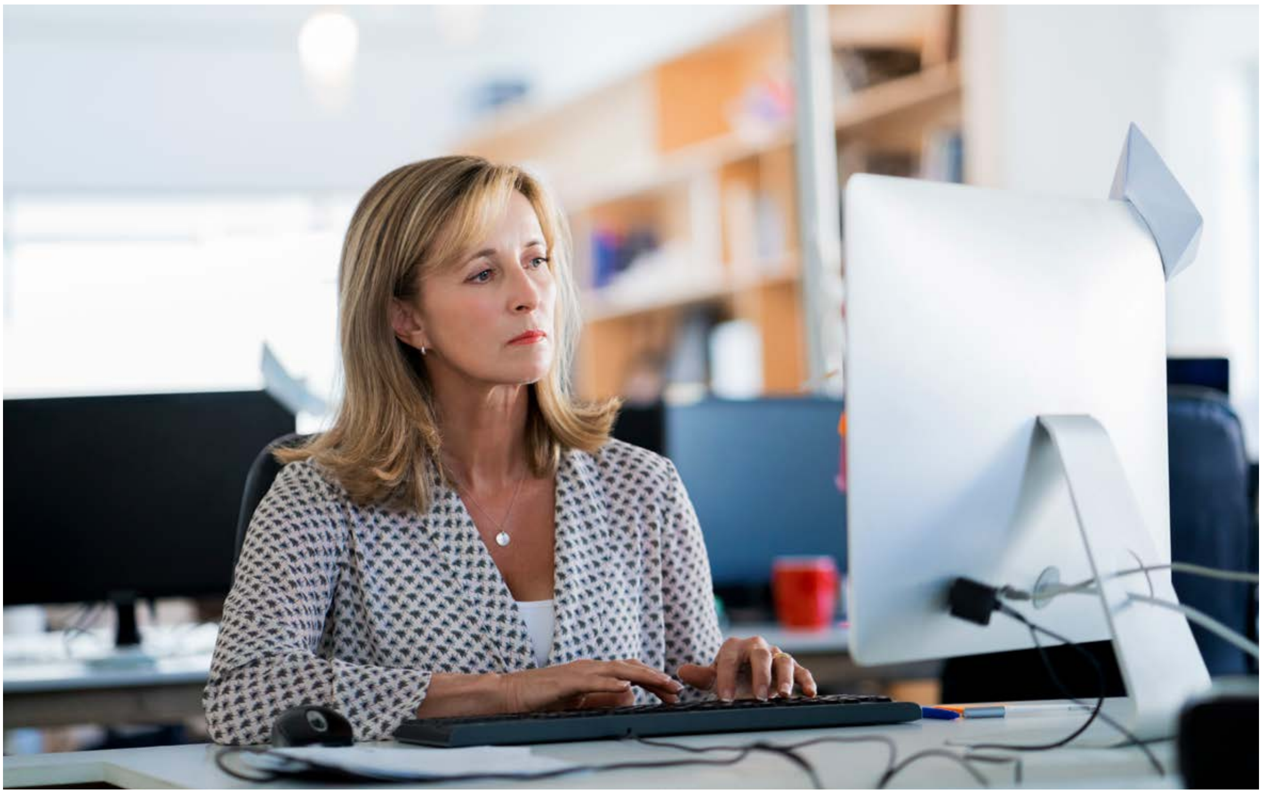
"We understand that only some UK businesses need to take decisive action, but we are one that does. We have moved the company forward at a rate and that means we stand prepared for most eventualities. We think that's the essence of good business planning."

At the same time, others are navigating the uncertainty around staffing and the availability of EU workers slightly differently. One restaurant business that HGKC works with employs a proportion of European staff – about 15 out of its overall headcount of 100. But it is quite a seasonal business and every winter most of those European workers typically return to their original home countries and then return the following spring to be re-employed.

"This time around the uncertainty is whether those workers will return – or be able to," says Jones. "The company's owner has been talking to the Home Office about the situation but it's unclear how things will look in six months, in terms of the status of those workers."

If that's one dynamic, another is to be found in industries where specialist knowledge workers are needed, such as advanced engineering. There's paperwork to complete for companies to draw in qualified experts from the European Union, and post-Brexit those knowledge workers could be drawn more readily from a global pool, so companies need to ensure they are ready for the change.

"There are costs with specialist recruitment, of course – but firms with positions to fill are investing for the long term and need to be ready for whatever is permissible after Brexit," says Jones.



Research funding risks

Innovation and research works best without borders, and one of the key successes of an integrated Europe that could change with Brexit is the availability of European research funding for UK businesses.

Horizon 2020 is the biggest and most well-known EU research and innovation programme, pushing out nearly €80bn of funding over the seven years from 2014 to 2020, and unlocking private investment along the way. It's funding that carries with it the promise of more breakthroughs, discoveries and world-firsts by taking the best ideas from the lab to the market without too much red tape.

What will happen to this financial resource for businesses in a post-Brexit world? In short, it's not yet known.

"There could well be a smaller pool of funding options after Brexit," says Jones. "Some companies that might have qualified will take the plunge and invest anyway at the same level as the funding would have enabled, but unavoidably you have to say it changes the landscape for business investment in R&D and innovation."

For companies, the challenge here, simply put, is a reduced opportunity landscape for making investments in innovation backed by external funding. For some that will mean putting more resource into finding and applying for alternative funding pots to the big EU programmes that run today, while others will perhaps decide to look at other opportunities for growth such as wider support provided by the government like The Department for International Trade who helps businesses export and grow into global markets.

"One company we work with is now focused on non-EU opportunities to drive new revenues, primarily in Asia and Africa, rather than focusing on innovation as a means of developing new markets," says Jones.

Overseas opportunity and Europe

It's worth reminding ourselves that, even if there are exceptions, most companies that trade overseas still see the EU as the main market to target.

How do companies go about unlocking opportunity overseas in practice, and navigating the Brexit challenge along the way?

It's something that's true with or without Brexit. The Institute of Directors said recently that two-thirds of internationally active directors don't see Brexit as a catalyst for stepping up non-EU market engagement. Two-fifths said it would have no impact while 27% said they were growing non-EU engagement anyway. That leaves just under a quarter of all companies driving non-EU expansion in definite response to an EU exit.

So having a global mindset is good, clearly, but geography still matters. Non-exporting firms, for example, are most likely to choose the EU as their first trading opportunity, compared with all other markets combined, because it's the obvious and local option. With Brexit coming through, it's still the case that UK government support for overseas trading should be focused on the EU market first. It remains the best first step towards trading with the rest of the world.

Companies targeting a new country or region should also take the opportunity to speak to their banks and other trusted advisers for insights, introductions and more. Banks have a global reach and longstanding relationships in most locations, as well as an understanding of other aspects that are due consideration in looking overseas, like the geopolitical risks involved. They can add so much more to the mix than international banking facilities and currency hedging.

There's one more point to make here that really matters. The UK has been at the forefront of global trade for centuries. Companies from the UK should always be confident about the opportunities in overseas markets, and understand that most barriers can be overcome. A lot of the narrative and rhetoric around Brexit has clearly undermined business confidence in the UK, but it flies in the face of the bigger picture that UK business has a great reputation around the world – and the confidence of would-be customers and partners all over the world.

That truth doesn't change with Brexit, and brand Britain remains strong, as Barclays' research illustrates.

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Networking and support in practice

How do companies go about unlocking opportunity overseas in practice, and navigating Brexit along the way?

One business that's been on the journey is C&P Medical. It's a medical wholesaler that was founded 20 years ago and has grown to more than £12m of annual turnover, running its operation from a 20,000 sq ft headquarters in Melksham, Wiltshire.

Julia Shaw is the company's operations director and says C&P Medical's strong international trading record is crucial to its success, but has also meant it needs to work at overseas relationships and at the financial and logistical challenges posed by Brexit.

"We buy directly from manufacturers in the UK and abroad, and we even sell our own manufactured goods by the pallet-load to other wholesalers," says Julia. "Next to this, we also sell goods directly, through our online shop, to podiatrists, physios, tattooists and piercing operators."

The fall in the strength of sterling was the first challenge arising from the UK vote to leave the EU, says Julia.

"It had an impact on our profit margin and triggered a review of our pricing for customers, leading to some significant price changes across our markets," says Julia.

In the past two years, C&P has continued to review all its suppliers and services and engaged in detail with customers about pricing.

"The weakness of sterling is a real issue, and when you add in the question of what's going to happen with a likely UK withdrawal from the single market and perhaps the customs union we know it's only going to get harder to buy and move product profitably."

Julia says that the current challenges are some of the biggest the company has faced in all its 20 years, but it remains optimistic.

"Put simply, we went from a profitable position to an unprofitable one. It was a profound change that needed addressing – and a volatile one too."

“Our Barclays account manager has been excellent in helping and guiding with the situation over the past two years. He’s very good at recommending external people with the skills we need for better forecasting and cash flow, for example. And his introductions to other businesses that sell product and operate in a similar way have likewise been helpful, because you can get an insight into how others are navigating their issues and compare notes.”

In these circumstances, Julia says looking to others for advice has been crucial.

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Sometimes more general networking also pays dividends, adds Julia.

“We attended a Barclays-organised event in Bath where we networked widely and picked up some crucial insights along the way. And there are economic briefings we can dial into and get to hear others’ views on disciplines like currency buying or taking on extra funding for cash flow or to make strategic investments.”

Julia adds that the relationship also extends to their Barclays contact being plugged into the business to the extent that he hears about new hires, new products and new customers, and has a real sense of the way things are shaping from month to month and quarter to quarter.

“We were doing some budgets and forecasts without a management accountant, and exploring new opportunities. In the process we learned that many companies in our sector are reviewing their contracts and suppliers, and it has given us the opportunity to pitch for and win work that could easily have been off the radar without our networks. In this time of political and economic change, there are opportunities to benefit as well as risks, and we understand that much better through the specialists we now speak to.”

Julia adds that the past two years have taught her and the rest of the board that every business needs a good array of advisers to call on to navigate Brexit.

“We are still cautious about what lies ahead, but we must stay proactive and positive and try to grab and then maximise new opportunities. Contracts with larger business, for example, will give us stability, so that’s a priority and a realistic aim for the year ahead.”

How Barclays can help

Dave Goodall, head of mid-corporate banking for Barclays in the South West, says: “C&P’s experience of getting support from Barclays is typical of how we engage, and heartening to hear about first-hand.

“As a global bank we work in a coordinated way to drive strategy and information flow internally and to share as much insight as possible with our customers. We also host sector-specific events for customers and prospects where a lot of first-rate ideas and strategy are shared.

“Day-to-day banking is important, of course, but our consultancy and networking work is a great way to support clients on all fronts, from introductions to finance, from data analysis to supporting specific resourcing needs.

“Recently we held a networking dinner for retailers and wholesalers, and what works about a set-up like this is how there is enough common ground between participants for genuine shared learning. We had stock controllers there talking shop about stock picking programmes and package-and-send systems. When we follow up, we find out how the event has pushed many to take a closer look at an issue or area and really review it. For a bank to facilitate that is something special.”

When it comes to Brexit, Goodall says the strategic calls required are exercising nearly every business right now.

“Should we export more? Should we open up a premises abroad? What is the bigger picture – and what are the risks – in a particular sector? We know that our customers are working hard to stay on top of everything that’s happening, and will need outside help along the way.”

Here are four examples of how Barclays supports business:

Sometimes a business has a complex working capital cycle and the relationship director takes in the Barclays Trade and Working Capital team to take a detailed look at what’s needed for the business to thrive. It’s forensic work, but the outcome can be transformative

We have specialist support managers that can support with cybersecurity and protecting against attacks, as companies continue to move towards digital-first operations. We are seeing an increasing number of incidents where companies are targeted by fraudsters and there has been financial loss, but every intervention we made helps to shrink those risks and minimise the chances of another loss.

When a customer is looking to make an acquisition – of an asset or a business – we can take a close look, examining the rationale for the investment and scenario-planning for different outcomes. Is an acquisition viable? Are there synergies for savings? Is there a good cultural fit with the target business?

We have deep sector knowledge and other insights we can share too. Among other resources, our Local Insights tool is useful for examining postcode or constituency areas and drilling down into the demographic data. If a company is looking to set up an office in Chippenham, say, we can look at whether or not this is the right call for the right reasons. We also work well with local branches in our banking network to share intelligence and insight across the Barclays group.

Barclays

Contact Barclays today to find out how they can support your business growth and overcome the challenges on the horizon.

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Visit: **www.barclayscorporate.com**

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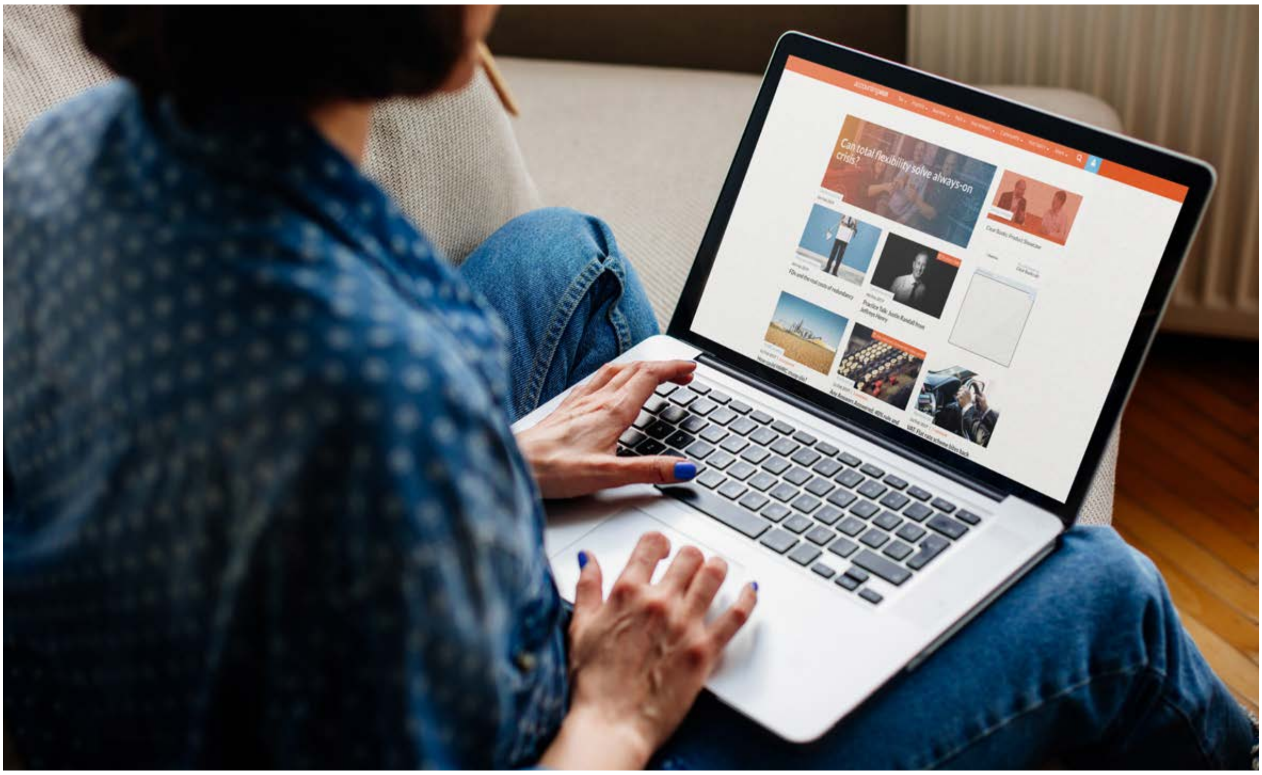

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