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Brexit

The 7 key points for business survival for UK based exporters and importers

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Worried about the effect a hard Brexit will have on your business and European shipping?

Do you have an understanding of what a hard Brexit might mean for your business? Our guide will tell you what you need to be thinking about now, and planning for in the short, medium and long term to mitigate any negative effects a hard Brexit may have on your business.

Trade tariffs

A hard Brexit will mean the re-negotiation of over a 100 trade agreements, leading to an increase in the UK's trade tariffs with the remaining EU nations. With a weak pound, these tariffs may not pose too much of a problem for exporters, who should be seeing increased demand for their products from EU customers. However, for businesses that import goods from the EU, there are many additional cost implications to consider. These could include; additional import duty and customs clearance charges as well as additional costs to buy and transport goods from Europe due to a weak pound. All these additional costs may prove too prohibitive, eradicating profit margins and a business' viability.

Supply-chain disruption

If you run a lean/Just-in-Time manufacturing process, you will need to start thinking about adding some flexibility into your supply chain. Leaving the Single Market will see an end to the free movement of EU goods to and from the UK. Many driving hours may be lost by drivers trying to leave and enter the UK. Export customs paperwork will need to be raised and collected by drivers at their port of exit. Queues at ports, at customs clearance agencies and at European border crossings may also have a negative impact on delivery times. On a simple, full load to Birmingham from Paris, a non-UK driver could easily lose up to two hours of driving time. If you cannot afford late deliveries, then start to do some contingency planning. Can you hold more emergency stock on site or store it in a local warehouse?

Multiple cost increases

In addition to the imposition of duties, customs charges, increased transport and administration costs, your labour costs may well increase too. If your business has relied on the steady stream of EU workers doing minimum-wage jobs, new immigration legislation may prevent or severely limit you from recruiting low-skilled EU workers. If you have a labour-intensive manufacturing process, your only alternative may be to increase your hourly pay rates to attract good quality UK workers.

Get expert advice

With decades of free EU trade, some EU logistics companies may not have the appropriate skills and IT systems in place to ensure your goods are handled correctly, whilst avoiding delays and minimising additional charges. Incorrect advice on a commodity code could cost you £1,000s in extra VAT and duty. The Pre-entry Procedure of the New Export System (NES) that is currently in place for all non-EU exports is a four-stage process, which if not handled properly, can be both a costly and time-consuming one.

Currency fluctuations

Your margins may be completely eroded by fluctuations in the pound/euro exchange rate. If you are importing goods from the EU and paying for them in euros, you must have a currency-hedging strategy in place. Article 50 was triggered in March 2017, starting a two-year negotiation period, which may be extended. Pound/euro rates will be volatile as foreign exchange (FX) traders will use the uncertainty in the wider economy to influence the markets. It would be wise to review your hedging strategy now, with advice from a few experts. There are lots of different hedging products on the market to choose from. It's just a question of choosing the one that is right for you. Alternatively, why not try to switch your payment currency from euros to pounds sterling and give this headache to your European suppliers?

Alternative component supply sources and strategies

With a weak pound, sourcing components or goods from the EU is currently costing about 10% more than it did before the referendum. With other administrative charges to factor in when we leave the Single Market, you could see your import costs increase by £100s if not £1,000s. Will your customers be prepared to pay the extra, or will you sacrifice some margin and soften the blow? Either way, your competitors may start to look at other ways to get their product to market without any cost increases for its customers.
They might look elsewhere in the EU or outside the EU to see if they can source their products more cheaply. If they can, they will have a considerable competitive advantage over you, assuming they source products/components of the same quality.
It might be worth looking at onshoring, i.e. switching to UK-based component suppliers. Once you factor in all the potential extra future charges of offshore sourcing, onshore sourcing may prove to be a feasible alternative.
Dual supply chain solutions, if you are not implementing them already, might also be worthy of consideration. For example, sourcing from the UK for short-lead time demands and offshore for longer ones, or sourcing from two offshore suppliers instead of one to encourage competition and possibly help to drive your costs down.
A 'lift and shift' strategy may be worth considering for larger companies. Relocating part or all of the manufacturing process to a country within the EU may now have some considerable financial benefits in a post-Single-Market world.

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Start planning

With all these factors to consider, along with many possible outcomes to the Article 50 negotiations, it would definitely be advisable to start doing some contingency planning. If you know the key factors that will affect your operational procedures and supply chains, and can put what-if scenario solutions in place for the different permutations, it will give you an advantage over your competitors. It will show you in a very positive light to your current customers and prospective ones too. It will allow you to concentrate on what matters most to your business and not on fire-fighting at the last minute. Forewarned is definitely forearmed!

About the author

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Tony Shally has been involved in European road freight forwarding since 1991. A former language graduate, Tony set up Espace in 2000 and has been the MD ever since.

Espace offers road freight services to and from Europe for groupage, part and full loads. 25% of it's business is in the time-critical sector mostly in the Automotive, Aerospace and Packaging industries. Its Vision to be " best in class" is supported by a dedicated and long-standing team of freight professionals, an accreditation to the Investors in Excellence Quality Standard and a number of freight industry Awards.

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