

Business following Brexit

A Temperature Check on business impact, operations and confidence of businesses in Lewes District after leaving the transition period

Executive summary

- Before the end of the transition period, local businesses expected a moderate impact to their business and trading from Brexit. Over two-thirds prepared for Brexit, one-third felt they would be only minimally affected.
- When the trade deal was announced with 'no tariffs and no non-tariffs' barriers, some local business leaders reported relief, but many were more pessimistic about trading prospects. This was set against the background of every business in the survey feeling Brexit would be bad for business, but not 'disastrously so'.
- Many businesses did use the Government and Department for International Trade's 'Get Ready for Brexit' advice, while a few found it useful, over half said it was not targeted enough, too vague or essentially worthless.
- The six-weeks' trading period since leaving the transition period had been very difficult, with nearly three-quarters of businesses reporting severe disruption and large increases in costs of doing business.
- The problems reported were varied and multi-faceted, encompassing severe financial impacts, large increases in red tape, major issues with supply chains and delivery and access to goods and major delays. 60% of businesses felt this situation would not improve as it was structural and not a teething problem.
- Business is having to engage with these challenges but over 60% are considering offshoring, downsizing or potentially shutting the business down. One business owner had already moved all operations to Europe.
- Only 20% of businesses who responded identified any upside from Brexit, with an advantage coming from higher barriers to competition from the EU to trade in the UK market.
- Businesses who responded represented a wide section of industrial sectors within the economy from service industry (consulting, IT) to manufacturing, retail and food.
- Overall business response to the trade deal was that leaving the customs union and single market had made trading more difficult or impossible in the case of the businesses that had to move to the EU to continue operations. Local business leaders felt the trade deal had been poorly negotiated with little consideration of the impacts or consultation with business sectors that would be impacted by the new framework.

Background

The survey was conducted over a two-week period following the first 30 days after the UK left the EU Single Market and Customs Union. The survey aimed to take the temperature of business sentiment before and after leaving the transition period and track changes in business confidence and practical impacts among local businesses. Responses were compiled from a question set of 15 open-ended questions.

Overall, 10 businesses responded, varying from companies with multi-million turnover to micro-businesses with turnovers in the range of £100,000 but all could be described as belonging to the SME sector and represented a wide variety of sectors with the economy and covered professional services, consulting, IT, manufacturing, construction, retail, food businesses and personal care.

The business owners were asked to track their responses to the different stages of the UK process from member of the EU through the transition period to the UK's new status as an 'independent coastal state' and third-party country relationship to the EU under the FTA negotiated by the Government at the end of 2020 and the practical impacts that leaving the EU and then the single market and customs union had had on their business.

Findings

Q1: How did you think Brexit was going to affect your business before we left the transition period?

Most thought there would be a moderate impact. UK-only businesses not expecting to face any impact but one business that needed to be in the single market to continue trading did expect that they may need to shut down UK operations completely.

'Minimal'

Technical consulting

'We thought we may earn less money due to general hit to the economy and because some of more international clients may suffer.'

Internet business

Q2: Did you prepare for Brexit?

70% of businesses prepared for Brexit. The 30% who did not prepare mainly expected leaving the transition period to affect the pricing of inbound goods, or they thought they may see an impact to company performance because of the knock-on effect on clients' general financial health and ability to spend.

Q3: If you prepared for Brexit, please briefly describe your preparations

The 70% who prepared used the Government's Get Ready for Brexit information on the Government websites. Several local businesses also looked in depth at the new customs rules and VAT regulations. The main other work undertaken prior to transition by businesses was on supply chain issues, reorganising stock,, eg: moving it to Europe, and taking measures to ensure inbound supply chains were maintained.

One business owner was so badly affected by the impacts of a hard Brexit (and an effective no deal for services) on their service sector business that they shut down their UK operations and moved it out of the UK to an EU location.

'Read all government advice, made sure we had correct export numbers'

Health and beauty business

'Researched new customs rules and VAT regulations; checked readiness with suppliers; prepared customs declarations; raised finance to stock up with goods from EU in preparation for logistics problems in Q1 2021'

Local retailer

Q4: Did you use or consult the Department of International Trade resources? Were they useful? Was Government advice helpful or relevant?

Roughly half of businesses that consulted or used the Government information or advice services thought it was helpful, but this was qualified by a feeling that this presented only partial information and solutions. Many felt the advice was either not comprehensive enough or not targeted to their industry (there was next to no guidance for services which was raised by several businesses operating in the service sector). Other respondents felt the advice from the Department of International Trade and the Government was hopeless, worthless or vacuous and it did not address the vital issues concerned. It was also seen to be badly organised and with many suggested actions unrealistic for small businesses. In short, the detailed nature of doing business internationally and how this affected specific sectors was not properly addressed.

'Government advice was worthless . No straight answers, no guidance of what different options might require. Vast amounts of money wasted saying absolutely nothing of any use'

Owner, local manufacturing business

'Many details were unclear until full agreement was signed/announced; some of the tax/customs information is badly organised; main advice is to "get help" with customs procedures, which is problematic for small businesses'

Local retailer

Q5: When the trade deal was announced what was your expectation?

When the trade deal was announced, most business owners were more pessimistic than they had been before the UK left the transition period. There was some palpable relief at Boris Johnson's announcement of at least a smooth flow in goods and the announcement of

'no tariffs'. One respondent commented that they were surprised that there were no increases to import/export taxes announced. However, for several very experienced exporters, the deal, even as it was announced, spelt out serious damage and disruption to their exporting business.

'Relief that there would be no WTO tariffs but anxiety as to what would lie in the detail'

Local manufacturer

Relief that there would be no tariffs on our goods but expected difficulties with logistics, customs delays, higher handling costs etc

Local retailer

'That the economy would suffer a hit and that trading with the EU would become harder and more expensive.'

IT specialist

Q6: Did you think Brexit was going to be good or bad for your business?

Every business in the survey felt Brexit was going to be bad for their business, but many did not expect it to be disastrous. The effects varied from direct operational issues on the business to loss of customers and revenue because of the negative impact of Brexit on their client base, which was a confidence issue mentioned by UK professional businesses.

'Basically bad, because many of my client's jobs were in jeopardy, therefore it will have a negative effect on commissions'

Professional services company

'Bad, but not disastrously so.'

Local food importer

Q7: How have you found the first 30+ days?

The trading period in the 6 weeks following Brexit have been a very difficult time for the majority of businesses in the survey. 70% are reporting severe disruption, chaos and systemic failures with trading at borders and major increases in the cost of doing business. Getting materials was cited as a particular issue, along with trade between the UK and NI and Ireland. Only 20% of the respondents were unaffected with no change to their business or trading.

One business owner had already offshored their business to the EU prior to the UK leaving the transition period because of the severity of the impact on their business meant it was no longer possible to trade with European clients from a UK registered company.

'Disaster'

Entrepreneur in health and wellbeing

'Fairly chaotic as, coupled with C19, there seems to be systemic failures in trading at the borders with the EU including Northern Ireland'

Professional services firm

'Expensive and frustrating : it's increasingly clear our negotiators were making it up on the hoof'

Local manufacturer

Q8: Has your business experienced any disruption? If so what kind?

50% of businesses in the survey cited delays and logjams in their supply chain. This was affecting importers and exporters. Standard materials are no longer in stock and exporters had lost European stockists who are now reluctant to take their goods. The effect of delays was substantial with transit times cited by several respondents as multiplying from 3 to 4 days to 3 to 4 weeks and many businesses saying they had major difficulties with documentation and increased bureaucracy.

'Hugely delayed stock deliveries from EU (where they took 3-4 days before, some deliveries were held up for 3-4 weeks); we stopped selling to customers outside of UK/IRE because of increased shipping costs, delays and uncertainty around duties.'

Local retailer

'We have lost many of our European stockists. Our customers in Europe are reticent about buying our products. There are delays with couriers, prices have gone up. Shortages of ingredients.'

Health and beauty specialist

UK service businesses were finding UK consumers had become nervous about commissioning new work because of Brexit impacts to their personal financial circumstances.

One business owner raised the issue that the increased costs and delays were not just affecting the costs of doing businesses, but also having a major impact on cash flow, which is a major cause of bankruptcy for small businesses.

'Delays of up to 3 weeks on shipping goods to Mainland Europe . This means we don't get paid for an extra 3 weeks and nobody has talked about the effect on cash flow. Huge increase in bureaucracy and paperwork. The freight industry is in meltdown. Suppliers have increase prices to cover their increased costs'

Local manufacturer

'Yes. We have found it difficult to get our product to clients due to different documentation requirements for different EU countries.'

Food exporter

Q9: Do you think these problems are going to be resolved? If so when?

60% of businesses felt that these problems were not going to get better. They were not 'teething problems' but are new barriers that have come into force directly as a result of the trade deal that had been negotiated.

'Customs rules and increased costs won't change because the UK is outside the customs union. Processes and timeframes will hopefully improve within 12 months.'

Local retailer

'Fundamentals of the Free Trade Agreement/Trade and Cooperation Agreement are flawed & inadequately understood by Government'

Consultancy business

Q10: What has been the most difficult or challenging issue for your business?

Problems reported by business were both varied and multi-faceted. Problems with supply, customs procedures and the new extra bureaucracy and paperwork needed to do business with the EU/EFTA were all cited as difficulties by many businesses exporting goods.

Some service businesses had experienced a complete block on their ability to do business in the EU27. Financial impacts such as impact on cash flow, price increases and additional costs associated with new localisation work (having new labels printed as a requirement for exporting) also appear as major headaches for business, that now have to be tackled.

An overarching comment from the majority of businesses was the takeaway that these problems were systemic and structural, and that the Government was still failing to understand the profound impact on businesses of all sizes of leaving the single market and customs union.

'The indecision and lack of understanding from the government as to how Brexit will directly or indirectly affect businesses, plus all the extra headaches caused by further layers of bureaucracy.'

Local architect

'Lack of freedom to serve service customers in EU27.'

Translation and localisation specialist

Q11: Are you considering offshoring, reducing staff or closing your business altogether, as a result of the issues above?

60% of businesses who responded were considering either downsizing or offshoring work in the wake of Brexit. One business had moved all operations to Europe, the remainder were considering either offshoring, setting up a European subsidiary or closing their business entirely.

One business was expanding so would not reduce their UK workforce, but said any new and additional investment would now be made in the EU, not the UK.

'Considering a subsidiary in EU to handle EU orders, customs etc'

Local retailer

'We are an expanding business. So we will not reduce staff in UK but more likely invest any growth in a European office.'

Food producer

Q12: Has your whole sector (eg manufacturing, food, education, pharma) been positively or negatively affected?

When asked about the position of the sector their business operated in and the impact of Brexit on their sector as a whole, 90% of the businesses said that Brexit has had a negative impact on businesses in their sector.

Sectors of businesses responding were spread across different economic and industrial classifications and covered a wide variety of professional services (architecture, consulting, technical services, translation), IT, retail, food, manufacturing and construction.

Q13: Has Brexit provided any opportunities for your business?

When asked if Brexit had presented any additional opportunities for their business, the vast majority (80%) said no, but 20% had seen a small upside.

Q14: If yes, what are these?

Businesses that had seen an opportunity cited reduced competition from European competitors, because of the new barriers to trade erected by the FTA worked both ways. This had meant for some businesses, it had become harder for European competitors to compete for UK business or they had become more uncompetitive because of the need to raise prices to absorb the additional costs created by Brexit in terms of doing business in the UK market.

'Some competitors from EU are not selling to UK any more, or had to raise prices.'

Home goods store

'Some European competitors finding it harder to compete with us for our UK business.'

Commodity exporter

Q15: Any other comments?

In general comments summing up their reactions, local business leaders were, in general, highly critical of the government's handling the negotiations and the aftermath. Many saw that the next few years were going to be increasingly difficult as the problem they faced were the new structural reality of doing trade with the largest and closest trade block to the UK.

'So far, it has turned out to be worse than I anticipated as there was no time to plan.'

Landscaping company

'The end of regulatory alignment "transition" on standards etc will cause another major disruption, probably at the end of 2021 and after.'

Local retailer

'Brexit is a disaster, when coupled with Covid, it is a calamity.'

Health and beauty specialist

Conclusions

The report concludes while the vast majority of local business expected a moderate impact from Brexit for exporters before the transition period ended, the reality post-transition has been one of severe disruption and, in some cases, an existential threat to their business. Many respondents, despite making preparations and taking precautionary steps and understanding that the UK would undergo a hard Brexit, have found the new post-Brexit trading environment under the FTA extremely challenged to cope with.

Most concerning for the long-term health for local businesses, many business founders and leaders are reporting financial difficulties and impact of the sort that if ongoing will damage not only day-to-day operations but the capacity to expand, invest and grow their business. This is particularly concerning in the light of the Coronavirus pandemic and the double-digit plunge in GDP and the pressing need to grow the economy. The time that business owners are now spending on what would have been routine day-to-day activities that previously needed minimal supervision, reduces the capacity to be competitive, run their businesses efficiently and to innovate and invest in both the short and medium term with knock-on effect on jobs and investment in the local economy.

To sum up the main challenges for local business, supply chain impacts, delays and costs; substantial extra paperwork and red tape; financial impacts of increased costs to prices of incoming goods with the cost of supporting additional bureaucracy; the effect on cash flow and with the final impact of loss of confidence among customers about continuing to trade with the business are major challenges cited by Lewes businesses.

That one business owner had already moved their entire operation to the EU and over 60% of respondents were considering downsizing or offshoring operations demonstrates the serious potential impact on local jobs, growth of the local economy and implications for the tax take for both local and national Government.