

SUCCEEDING BREXIT: FAMILY BUSINESS INSIGHTS

Till Brexit do us part



The country's exit from the EU is the defining issue of our time, impacting on every business sector and affecting the fortunes of our economy now and in the future.

In our March 2017 report 'Till Brexit Do Us Part' we examined the findings of our Brexit survey of more than 400 mid-market businesses. Eighty-six of those responses were from leaders of family businesses based in the UK.

It captured a mood of resilience and level-headedness in British business on the eve of the Article 50 notification. Market sentiment also revealed an unsteady confidence about a trade deal and concern about the lack of guidance, resulting in many businesses feeling unable to make contingency plans.

Since the report, the formal Brexit process has started and negotiations have begun. Both sides have prepared position papers which set out increasingly divergent stances in their expectations of the negotiating process.

The EU has locked in a legal structure that prevents it negotiating future trade arrangements until 'sufficient progress' is made on separation arrangements, including citizens' rights, the Irish border and the divorce bill. After initially signing up to this, the UK is looking to bring forward the debate on future trade.

The UK's ability to achieve this goal will shape the next phase of negotiations. But on balance, the prospect of a completed trade deal at the end of the Brexit timeframe looks unlikely.

This report of our survey's results looks at the sentiment of leaders of family businesses around Brexit, the anticipated impacts, and what forward-looking business can do now to prepare.

Family Business insights

As family businesses grow and develop they face their own unique set of challenges and problems.

If you would like to be kept up to date with our insights on key issues currently affecting family businesses then please fill in your details below and post this card for free. Or if you prefer, you can just send a request directly to familybusiness@shma.co.uk

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You can opt out of our communications at any time by emailing comms@shma.co.uk

Welcome

It is estimated that family owned businesses represent almost two thirds of UK businesses making them a major force in the UK economy. They will have an important role to play in the future prosperity of our nation. As key advisers to these businesses, we recognise the challenges and opportunities that they will be faced with and ultimately the commercial reality of a post-Brexit Britain.

Leaders of family businesses are expecting big changes post-Brexit but they are restrained in their assessment of the anticipated outcomes, especially on topics around whether economic growth will stall. Our research has indicated that as a segment of the UK business community, they are the least likely to have analysed different trading possibilities and some of the businesses responding to our survey have stated that they are awaiting clarification from the Government on what Brexit really means before they take action.

Deep into negotiations, questions over whether the UK wishes to maintain an association with the free market or the customs union still remain. It is unknown whether these options would be available even if there was sufficient time to explore them.

Whilst the deadline for Brexit remains unchanged, complexities are growing, objectives are changing and clarification on what Brexit means for businesses is still unforthcoming.

Our report looks specifically at family businesses and their outlook for a post-Brexit economy.

Those who plan earliest for the potential impact of Brexit will secure the biggest advantages. Our five-point action plan on page 14 is a good place for family businesses to start.

Duncan James
Head of Family Business
Shakespeare Martineau



Executive summary



Family businesses are estimated to generate over a quarter of the UK GDP making it a significant and growing contributor to the UK economy. The sentiment of this influential group is a good measurement of the business community's pre-Brexit mood.

So what does this influential group see as the headline changes for a post-Brexit economy?



75%

agreed that there needs to be a reduction in red tape around trade and the movement of goods

Reduction in red tape is key to stimulating growth and encouraging investment

The free movement of goods is seen as a necessity among family businesses and three-quarters of businesses responding indicated that a reduction in red tape around trade and the movement of goods is essential for business success.

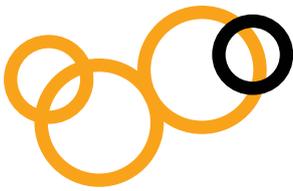


59%

acknowledge that businesses require immigration to fill the skills gap

Immigration is necessary to filling the skills gap in family businesses

While the reduction in red tape around immigration didn't feature as a key concern for family businesses, over half indicated that businesses require immigration to fill the skills gap; only 15% saw immigration as unnecessary. This is an interesting comparator with the non-family owned businesses surveyed, of which 79% indicated that immigration was required to fill the skills gap and felt that Brexit would have a negative impact on access to skilled workers.



67%

believe loss of access to parts of the single market presents a damaging risk to the UK

Losing access to the single market could be detrimental to family businesses

Leaders were particularly concerned around the potential increases in costs of imports, with 79% identifying this as a key challenge to overcome.



82%

of leaders indicated that they believe Britain is strong enough to be independent

Optimism that the UK is strong enough to be independent

At the same time, 80% of leaders indicated that they think Brexit will damage the reputation of the EU across the globe.



Reduction in red tape is key to stimulating growth and encouraging investment

The message from the family business community is clear. Less red tape bureaucracy will be essential to stimulating economic growth.

A substantial majority of business leaders thought Brexit would allow the Government to flex the tax regime to encourage investment and believed that less red tape would benefit the economy. In comparison with other business types surveyed, such sentiment was strongest from family businesses.

Indeed, for family businesses a reduction in red tape is particularly important, with three-quarters (75%) of respondents highlighting that the smooth movement of goods is essential for their business success.

This optimism around trade opportunities is tempered by the findings from our main survey report which suggested that EU businesses are more ready than their UK counterparts to pull business or projects from the UK. There was a sense among our survey's EU panel that the UK economy will be impacted by businesses relocating their headquarters elsewhere.

So what is the reality for UK businesses?

The freedom to strike new trade deals may be seen as a positive but optimism is curtailed by the conflicting perspectives on the negotiations: the EU is focusing on the exit arrangement while the UK wants the emphasis on the new trading relationship.

It takes around six months to just translate, legally scrub and ratify a trade agreement. That leaves little time to actually negotiate and agree all the details. Indeed, the EU's trade deal with Canada took seven years to negotiate and did not comprehensively cover services, which represent around 80% of the UK economy.

Whether or not a trade deal is done, UK businesses selling goods into the EU will have to comply with EU standards. The Government plans to transplant all existing EU law, including product standards and regulations, into English law. Initially there could be little difference – but then things will soon change. As EU rules are amended and the UK equivalents remain the same, businesses will have to comply with two disparate sets of regulations.

There are also issues for importers. Once the UK leaves the customs union there will be a tariff barrier between the UK and EU. The Government proposes to address this by using either new technologies to streamline the customs process or a system that mirrors the EU's rules on imports from the rest of the world where the final destination of goods is the EU.

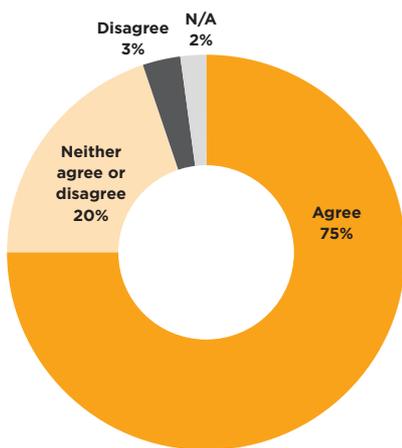
Far from simplifying red tape, the likelihood of customs barriers and divergent trade standards look like they might increase bureaucracy.

What should businesses do?

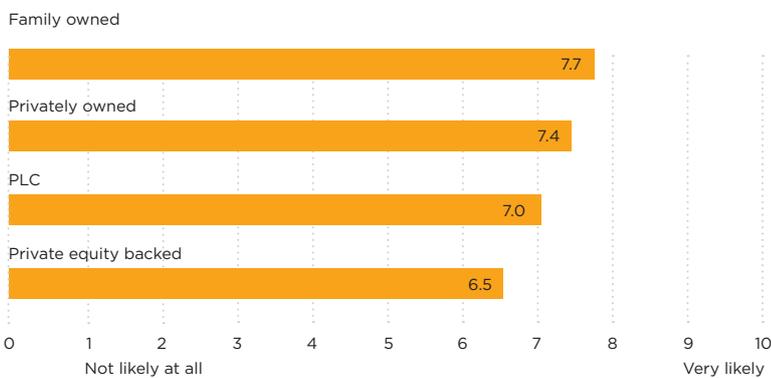
Businesses need to look at their direct and indirect supply chains and assess their exposure to tariffs and other barriers. Businesses should look at the possibility of 'on shoring' elements of their supply chain where that is possible.

The Government has said very little about tax reforms following Brexit. The silence might be broken by a persuasive case from the business sector for tax reform designed to encourage investment.

Do you agree or disagree that there needs to be a reduction in red tape regarding the trade/movement of goods?



After Brexit, how likely do you think it is that the UK government will have the ability to govern/flex the tax regime to encourage UK investment?



“This is a retrograde step that looks like it will force us to move part of our distribution back into the EU, reducing jobs here and reducing profitability.”

Manufacturing business

“I consider we are a robust industry and can realise all we require by internal investment. With such change, some pain short term is likely.”

Construction business

Immigration is necessary to filling the skills gap in family businesses



Brexit comes with its opportunities and risks. Whilst most leaders are optimistic about Brexit, immigration is an area of concern among many family business leaders.

While the reduction in red tape around immigration didn't feature as a key concern for family businesses, over half (59%) acknowledged that businesses require immigration to fill the skills gap; only 15% saw immigration as unnecessary. Leaders of family businesses indicated that they expected the biggest challenge post-Brexit to be the flow of skilled foreign workers into the UK and 53% are anticipating that this will decrease.

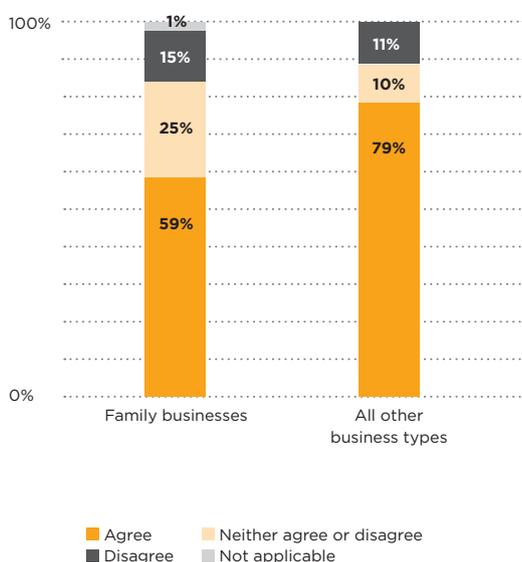
This is an interesting comparator with the wider view of all types of businesses where almost three-quarters (79%) indicated that immigration was necessary to fill the skills gap and felt that Brexit would have a negative impact on access to skilled workers making the labour market less flexible to demand.

What are the current proposals?

The current Government proposals state that people who have been continuously living here for five years will be able to apply to stay here indefinitely by getting settled status. However, even if those nationals have already applied and have been granted a Permanent Residence card, under the rules in place today they will need to apply again for a new style 'settled status' document regardless. The Government has stated that it intends to roll out a simplified application process for these people in 2018 and this can be done either before our formal departure or in the proposed grace period after our departure. EU nationals must apply for a document by the end of the grace period or they will not be able to show that they have the right to live and work in the UK.

People who arrived in the UK before the 'cut-off' date but won't have been here for the five years required to achieve settled status, will be able to stay until they have reached the threshold when they can apply for the new style settled status. People who arrived after the 'cut-off' date will be able to apply for permission to remain after the UK leaves the EU but only under the future immigration arrangements for EU citizens. These future arrangements are yet to be decided. These people, however, will have no guarantee of settled status.

Do you agree or disagree that businesses require immigration to fill the skills gap?



So how are migration restrictions likely to affect family businesses?

Businesses that employ migrant labour, regardless of ownership structure, are likely to be feeling the impact of Brexit already. EU national staff may feel unsettled at the uncertainty surrounding their future. The guidance issued is vague and has yet to be agreed with the other member states. This can create morale issues. Furthermore EU nationals may resign with a view to seeking work in other EU countries due to the fact that they believe there is no future for them here.

There has already been a sharp decline in the number of EU nationals coming to the UK and applying for jobs which could lead to a potential skills shortage in many sectors. This means that it's not too early to take action. In the face of uncertainty, businesses employing migrant labour should be pro-active and inform their employees of the action they will have to take and when. Until further guidance is issued EU nationals continue to hold full Free Movement rights in the UK (and similarly British citizens in the EU until the UK ceases to be an EU member state).

A core rationale for Brexit is to limit immigration so there is every chance that any skills gap in your organisation could be exacerbated.

Now is the time to open the line of communication with your migrant workforce and offer support where you can. It can mean the difference between continuing to have a productive workforce and one which is plagued by uncertainty.

"I'm obviously concerned about some of my foreign nationals who are valued greatly by us."

Hospitality business

"I foresee our business turnover shrinking when the house building sector slows down - but think we are strong enough to deal with the bumps along the way and have made provisions to diversify away from becoming reliant on one area of business."

Construction business

Losing access to the single market could be detrimental to family businesses



Family businesses express concerns that Brexit will cause a detrimental loss of access to parts of the single market.

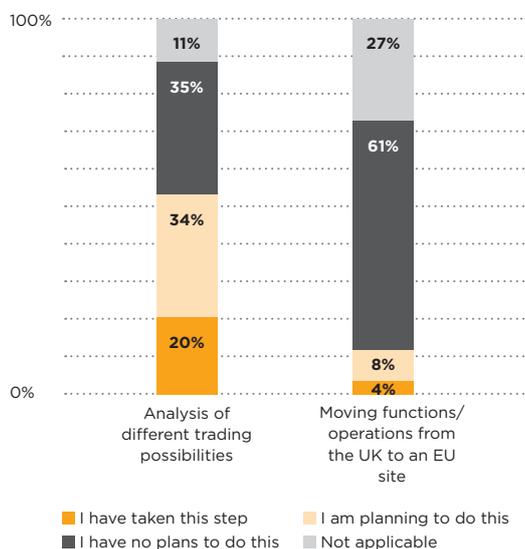
With the triggering of Article 50, the UK began the formal process of withdrawing from the European Union. A profound legal structure is emerging that will have wide-ranging consequences.

Family businesses are not blind to the impact of Brexit with almost two thirds (67%) of family business leaders believing that Brexit will cause a detrimental loss of access to parts of the single market. Specific concerns are around the potential increase in costs of imports with the majority of leaders (79%) identifying this as a key challenge to overcome. This is an area which will remain without clarity until the trade agreement is progressed.

However, limited planning is being undertaken on what this actually means and the potential impact on financial stability. Family owned businesses are less likely to move operations from the UK to the EU with only 4% having taken this step and 8% planning to do so. This is a stark contrast to the private equity backed businesses in the wider survey where 18% have already moved operations/ functions from the UK to the EU; they are also more likely to have planned the management of tax registrations and administration costs across the EU.

In addition, only a fifth (20%) of family owned businesses were likely to have analysed different trading possibilities as a consequence of Brexit, significantly less than private equity backed businesses (36%).

What action is your business taking/planning to mitigate the risk associated with Brexit?



So how quickly should family businesses be reacting?

We are now moving deeply into the two-year negotiating process and it is still unclear how the UK withdrawing from the EU will play out.

What is certain is that the time constraints are tough and the negotiating process is becoming increasingly complex.

The country's exit from the EU is the crucial issue of our time, and family businesses need to prepare now for what will inevitably be a time of turbulent change.

Now is the time for strategic planning to alleviate potential risks and seek out fresh opportunities. Every business will be affected differently, whether due to import costs, supply of labour or tariffs.

Do not rely on a trade deal to be struck within the timeframe but plan ahead to ensure that commitment and robust contracts are in place from both customers and suppliers.

It might mean re-thinking decisions, such as in the case of a textile business that after bringing production close to home is now looking at a joint venture from Sri Lanka. Another business client's Brexit response has been to swiftly set up a new manufacturing enterprise in China.

"Currency exchange rates are crippling importers like us."

Mail order business

"We've consistently grown by adopting an outward looking policy of sales and distribution in European markets. All of this is now very realistically threatened. Around half of our 150 employees stand to be made unemployed if the worst scenarios play out. We can't accept this risk and will be investing in foreign production facilities to ensure our participation in the markets so hard won."

Manufacturing business

Optimism that the UK is strong enough to be independent



Brexit comes with its opportunities and risks. Whilst most leaders are optimistic about Brexit due to the perceived ability of the UK government to reduce red tape, they were divided on the influence the UK has globally.

Leaders of family businesses are positive about the strength of the UK post-Brexit with the majority (82%) of those responding indicating that they believe Britain is strong enough to be independent. However, leaders were divided on the influence the UK has globally and the impact of Brexit - 48% believe the influence of the UK will increase, 34% believe it will decrease and the remaining believe that there will be no change.

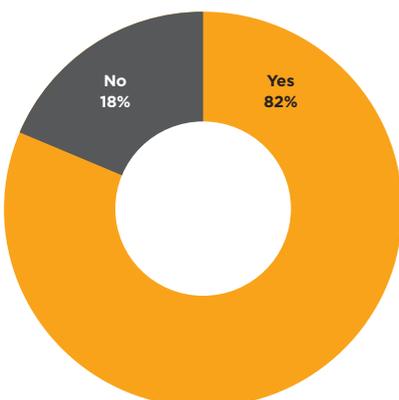
Interestingly, a strong majority (80%) also believe that Brexit will damage the reputation of the EU across the globe.

So are family businesses right to be so optimistic?

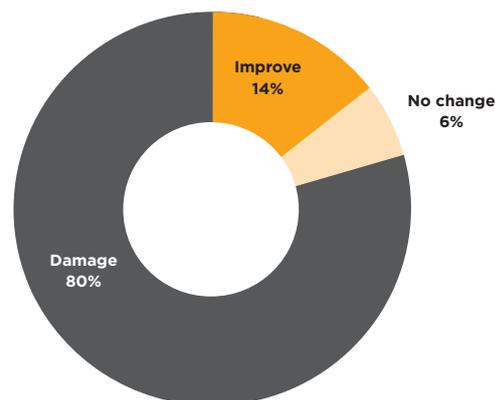
Family businesses have always been resilient and many believe that the family structure enables them to make decisions based on business survival rather than just top line profit. However, it is essential that family businesses do not see Brexit as just another bump in the road as our exit from the EU is likely to have far reaching consequences; while the UK will have the ability to define its own future in the long run, upon exit, we are still likely to be held to account.

As an example, the Reform Bill is expected to transfer all of European law at the date of Brexit into English law. Businesses will continue to have the administrative burden of legislation such as GDPR. In addition, some businesses will be reliant on one of the specific European regulatory agencies and the post-Brexit status of these agencies is unclear.

Do you think the UK is strong enough to be independent?



Will Brexit improve or damage the reputation of the EU globally?



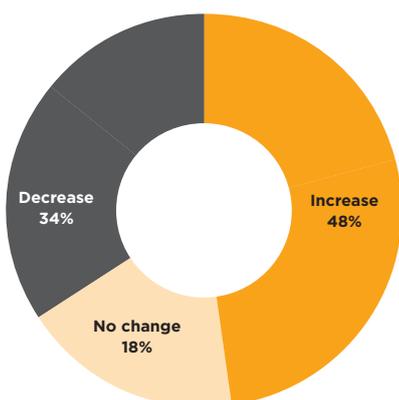
How should this optimism be channelled?

Brexit is the biggest change in a generation for any business. Along with the uncertainty of this, it also presents and galvanises many opportunities. Proactive family businesses will be looking to reassess what they are doing and aiming to achieve in the future.

The greatest risk is to do nothing. In our view, the marketplace for family businesses will become more dynamic and volatile after Brexit. In this new environment, what worked in the past is not likely to be a sustainable formula for success.

A timely action is to make connection with individuals and organisations which understand and share similar challenges to you. Also consider looking beyond the family to find an external non-executive mentor to bring fresh experience and a different perspective to your business planning.

After Brexit, do you believe the influence that the UK has globally will increase or decrease?



“We have to be positive, and talk business and the UK up!”

Transport business

“Until the result of the Brexit negotiations is known, it is too early to say. If there is a free trade agreement it will make little difference and if there is not a free trade agreement it will be unhelpful but not disastrous.”

Automotive business

Planning for Brexit



On the current trajectory of negotiations, we conclude that a trade deal within the required timeframe is unlikely.

Many family businesses have not started planning for Brexit. Communication with employees on the impact of Brexit on the business is the most popular step taken with 63% having either started the communication process or planning to do it. The least likely action is to set up a Brexit action group. 70% of leaders say that they have no plans to do so which is reflective of the sentiment of the wider UK businesses.

Now that the UK has agreed a phased approach to negotiations, all businesses (including those that are family owned) need to start planning for a difficult Brexit. Those businesses that plan early will secure the biggest advantages.

In order to mitigate the biggest challenges for family businesses, we recommend the following five step action plan:



1. Supply chain

The free movement of people and goods is seen as a necessity among family businesses. If no trade deal is concluded then customs barriers and tariffs will come into force. We recommend you assess your supply chain's direct and indirect exposure to import and export challenges. If your business has a particularly high volume of imports and exports, you should prepare for the administrative burden of customs checks and consider the impact of WTO tariffs on your business. Also consider the location of your supply chain and potential alternative suppliers on home soil.



2. People and skills

With over half of family businesses requiring immigration to fill the skills gap, now is the time to assess your potential exposure and ensure that you are doing all you can to support your workforce. Brexit is likely to be a deeply unsettling time for employees who are EU nationals so you may wish to assist key employees with applications for rights to remain in the UK. Consider what the impact may be of losing skilled migrant labour and what your options may be to address the gap.





3. Financial resilience

A hard Brexit is likely to have unpredictable economic consequences. While family business leaders responding indicated that they believed Britain is strong enough to be independent, there is a question of how influential the UK is globally. Regardless of the long term benefits and challenges of Brexit, it is essential that you act now to understand your potential exposure. Use information to forecast what could happen to more accurately assess the risk and how to reduce exposure. Time spent preparing for possible scenarios and impacts is time well spent.



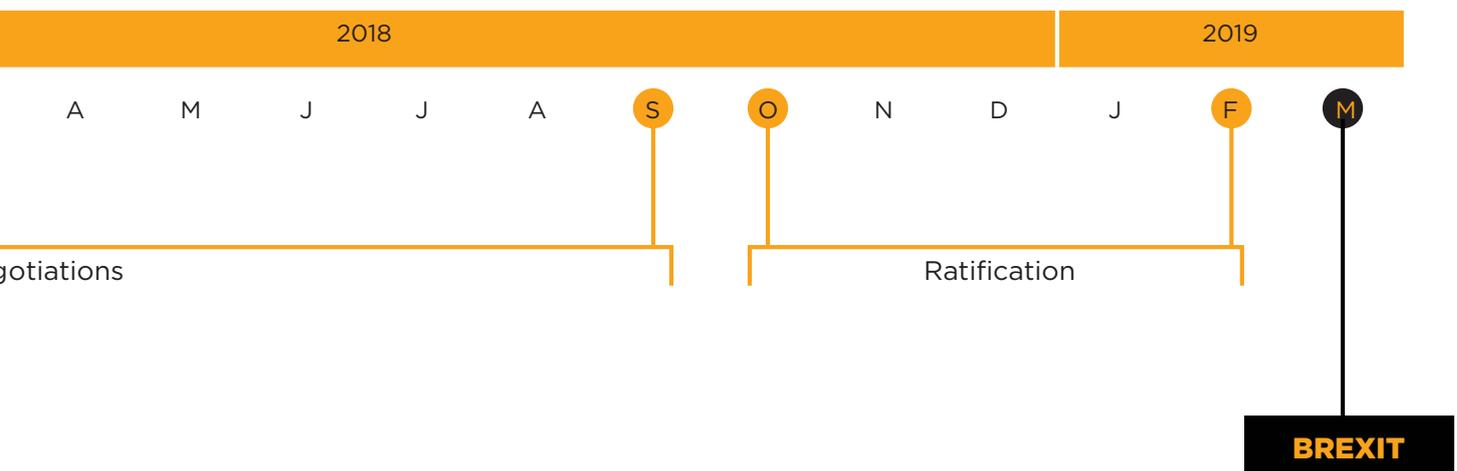
4. Collaborate

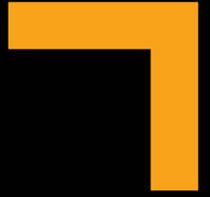
It is important to remember that you are not alone; many family businesses are experiencing the same challenges and there is benefit to making connections with organisations which understand or share similar challenges that you may face. Other family businesses can act as allies when you need support during the unpredictable times ahead and by collaborating with your supply chain, advisers and sometimes competitors, you may be able to chart this unknown territory.



5. Act now

Brexit will undoubtedly change how business is done. The time to exit will pass quickly and it's not only about mitigating risk but also hunting out new opportunities and seizing them ahead of your competition. It's time to treat the unexpected as the new norm and plan for it. Integrate planning for Brexit into your approach to financial forecasting – you may just find a new opportunity around the corner.





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