



# Brexit Strategy for Small Businesses

8 Minute Read



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## What does Brexit mean for you?

The decision to leave the European Union is a bold departure for the UK. It has created a climate of uncertainty, but also the potential for opportunity and growth.

Throughout this guide we'll help you understand how you can devise your strategy, get a plan in place, and be clear on what you need to focus on in order to navigate these uncharted waters, to help your business succeed.

Kind Regards,  
Bivek Sharma, Head of KPMG Small Business Accounting





# 1. Brexit Strategy: The Immediate Response for UK Businesses

The waiting is over, and despite deeply divided feelings about the referendum result, the UK is almost certainly on its way out of the European Union. This first instalment of our new Brexit Strategy blogs covers the immediate impact on UK small businesses and provides practical advice on what to do now.

The timeline of our departure from the EU is not yet set, though the official process is designed to last at least two years. A great deal needs to happen between now and then and until the last document is signed UK businesses will continue to operate as full members of the EU. Yet the affect of the vote is already being felt across the nation.

## Taking the first steps

What Brexit means for you and your company will vary greatly depending on your business model, sector, workforce and supply chain. Very few will escape some form of impact, but that does not mean disaster. Much will depend on assessing the implications and making the most of the situation. One thing is certain in these uncertain times; change brings opportunity. The challenge is knowing where to look for it and acting with wisdom as well as speed.

In the meantime here are some points to consider when exploring how to protect and grow your business in these fast-changing economic conditions:



## Written in the margins

One of the most startling consequences of the referendum so far has been the dramatic fluctuations in the value of the pound. With bond yields hitting record lows and the pound crashing to below \$1.30 for the first time since 1985, the value of our currency is taking a bit of a bashing at the moment. While this may seem like a far removed issue for most small business owners, everyone fits into the supply chain somewhere. For businesses buying goods, services or even hiring (consultants or agencies for example) from outside of the UK, this is particularly pertinent.

When the pound drops by 15% (as it recently has), the cost of purchasing anything in another currency will increase.

Firms affected by this have two choices: to absorb this cost and accept a reduced margin or pass the increase onto customers. In the immediate term, many businesses seem to be choosing to absorb the costs in the hope that they are only temporary, but this is rarely a viable long-term strategy.

The impact on margins and profitability will vary massively from business to business so beware of relying on generalisations and if necessary, seek expert advice.

## Keep going, keep growing

Recent history has taught us that in a downturn people sit on their hands and stop buying, but this is a frighteningly effective self-fulfilling prophecy.

Right now the biggest thing we have to fear is fear itself. This goes for individual companies as well as the country as a whole. Holding back on worthwhile investments is a great way to give more courageous competitors an advantage. But the crucial word is worthwhile. It's about figuring out which investments will pay off in the economic conditions ahead.

## Built for all weathers

Navigating an uncertain economy does not mean cancelling growth plans – planning to grow is crucial, given the alternative is planning to stagnate. But delivering growth in a shaky economy can involve a different mindset and a different strategy, so business as usual isn't quite right either.

While re-focusing an enterprise to suit new conditions can take time, there is an immediate need to begin an assessment to see what ought to be done to protect the business and build resilience while capturing new opportunities. In the credit-crunch induced recession which began in 2008, business commentators often talked of recession-proofed businesses – think funeral directors, or cheap luxuries like chocolate and home pampering products that people indulge in more when their budgets are cut. Yet, whatever awaits our post-Brexit future, it is unlikely to be an exact repeat of the downturn we've recently escaped.

## The importance of leadership

For many this may mean a period of transition, looking at which products and services are utilities not luxuries, which can be slightly re-focused as a cost-saving proposition and considering which markets – both in terms of sectors and geographies are now going to offer the opportunities needed for both income and profit margins. While this period of adjustment is challenging, it is a chance to improve a business and spur it on, on many levels. The effect of leadership at this time could be magical when so many employees feel in need of it.

To paraphrase Douglas Adams this may not have been where many of us intended to go, but let's see if it can get us where we need to be.

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## 2. Brexit Strategy: Turning Plans into Action

**Long before the new Prime Minister confirmed “Brexit means Brexit”, small business leaders have been busy guiding their firms through market volatility, seeking out opportunities and reassuring staff. Many have already begun to plan for a future outside the EU, whether or not it’s what they would have chosen. But how can leaders ensure their plans get off to the right start?**

A business leader’s ability to continuously adapt to new competition, legislation and fluctuating markets is often critical to survival and growth. Yet it’s hard to recall a time more likely to put these skills to the test than the conditions beginning to emerge for UK small businesses. It’s lucky Britain’s entrepreneurs are well-practiced in both stoicism and agility.

In addition to preparing for the proverbial unexpected, there are some particular challenges that many will need to overcome in the next couple of months.

### Protect people and skills

Regardless of what happens further in the future, very few small businesses are likely to need to make unexpected staff cutbacks in the first months following the referendum. As for employees from other European countries, Downing Street has promised there will be “no immediate change” in the status of EU nationals living in the UK. Nevertheless, anxiety can lead to knee-jerk decisions. There’s a lot to be said for avoiding departures with positivity and openness – being a calming influence while others are panicking.

Guiding a business through whatever transitions are needed to suit their own particular opportunities in the new climate is likely to mean retaining and in some cases hiring new skills, so it would be wonderful to see ambitious firms taking this positive and pragmatic approach to hiring decisions in the medium term.

Many of the business owners I work with are greatly driven by protecting their people and their people’s livelihoods, so much focus will be on winning enough new work to make up for any losses and retain or grow incomes. For those that rely on EU trade, or work from large firms that may be considering leaving the UK, starting the process of breaking into new markets at home or abroad will be a major focus.



## Economic volatility

Though (at the time of writing) the pound has recovered somewhat from its initial post-referendum freefall, economists are predicting continued currency fluctuations. Link that with a downgraded credit rating, slowed GDP, and rumours of impending inflation – and the threat of another recession seems possible, although far from guaranteed.

While the economic outlook is anything but certain, preparing for months rather than weeks of market volatility and unstable conditions looks sensible. After the financial crisis that began in 2008, many business owners operating in 2016 will now have the personal experience of working through a recession – with all the hard won lessons that it brought. Preparation, confidence and adaptability are now hardwired into many entrepreneurs and more and more I'm hearing leaders respond to Brexit as an opportunity to focus on key strengths and investigate new ways of using them.

The Chancellor will almost certainly announce measures to protect the UK's financial health in the Autumn Statement and these measures may well include cuts in public spending or tax increases. If this happens, it may be in stark contrast to the incredibly pro-enterprise Budget Mr Osborne announced in March, so watch out for any cuts to newly won gains.

Winning is a matter of speed as well as great offerings and smart marketing.

## Competitive advantage

One factor that has the potential to scupper plans is how competitors respond. If your customer's behaviour is likely to alter in the post-referendum world you may not be the only business leader to have noticed. This is a vital point when following through with plans to diversify into a mix of rainy day and sunny day business models, or when considering breaking into a different market altogether.

For example b2b firms that can service many different markets may be considering refocusing on an industry known to be well-insulated against current economic conditions, but competitors will know this too. These opportunities may become increasing competitive so winning could be a matter of speed as well as great offerings and smart marketing.

## Managing the transition

Executing a transition like this may require a crash course in a new skill set, or strategic hiring to broaden the skills of your team. This represents a leadership challenge in terms of winning around your workforce to a different way of doing things, but also, potentially, a financial one. Though this hardly looks like the ideal climate for seeking funding, there are ambitious investors out there no doubt looking to capitalise on the opportunities brought about by change.

Many great businesses have been built in tough economic times and I truly believe overcoming these challenges can be the making of some firms. With small businesses delivering almost 50% of UK GDP I just hope policy makers do everything they can to protect and encourage enterprise in the months to come.





## 3. Brexit Strategy: Walking out the door

**At the earliest the UK may leave the EU in two years, with the new Chancellor of the Exchequer, Philip Hammond, predicting up to six. There is time to get ready, but how can it best be spent to ease the transition period?**

When it comes to the final step of leaving the EU, different sectors, industries and sizes of business will all be affected differently, but as our current legislative framework is derived from EU regulations, changes of some sort will be felt across the board.

### Dotting the i's and crossing the t's

While one of the arguments for leaving the EU was getting rid of unnecessary red tape, in the short-term it will create considerable administration and legislative reviews for small business owners. It is far from the most exciting aspect of running a small firm, but staying on the right side of legislation is vital.

It's worth checking your legal protection as a business – making sure your contracts cover you both with clients and suppliers, and that there is nothing that will make them invalid.

### Safeguarding employees

Until negotiations are complete in a few years time, the UK will continue to be governed by EU legislation and directives. Many of our employment law rights were influenced or implemented by the EU, from holiday entitlement and working time, to rights for women and anti-discrimination legislation, and it is unlikely they will just disappear the moment we leave. That's not to say it will be business as usual, and small firms need to be prepared.



I've worked with small businesses both personally and professionally for many years, and I know that they put their employees above all else (after all, your people are your business) and may be wondering how they can safeguard their future within the company. With this in mind, I've summarised some of the key areas of your business that it would be worth reviewing as we prepare for E-day.

## Working conditions

Anti-discrimination regulations and fair working conditions have been a mainstay for UK businesses for some years, and will almost definitely remain unchanged. Something that will affect all businesses however is the workforce, and what will happen to EU workers. This can be particularly sensitive in a small business which may have few employees.

However, if certain legislation is stripped away, it doesn't mean startups have to remove it from their own conditions. Consider reviewing which protections and benefits are crucial to you and your staff, and which you might keep even if they are no longer statutory outside the EU. It's worth thinking how your decisions will impact things like staff retention, loyalty and productivity. This could be a chance to compete for talent as companies that offer great benefits over statutory duties can attract great employees.

## Finance

Funding is another area that may be of concern for some small companies. While the EU has special funding programmes operated by the European Investment bank (EIB) that will no longer be available once we have left the EU, that's not to say the UK government won't implement alternative schemes designed to support small business.

Small companies are known for their tenacity and flexibility, and Brexit could provide the opportunity to cement their position at the heart of the UK economy.

## Big business and supply chain

As a small business, the chances are that you will have some involvement with big business during the first year, whether through trade or supply. With certain large businesses currently debating whether to move operations to the continent, it is worth thinking how this may affect your business.

Supply chains are another vital element to review, as depending on each company's individual needs and supply chains, these may spread across the EU. Small firms may benefit from thinking about how the performance and validity of contracts may be affected by leaving the single market, and whether the possible imposition of taxes and tariffs may make certain deals costly. This is particularly pertinent if your business relies heavily on trade with the EU.

Small business owners are nothing if hardy and resilient, and while it may seem daunting now, putting in the preparation early can ensure you're in prime position to capitalise on new opportunities when we exit the EU.

To find out more about how KPMG's Small Business Accounting team can help you visit [kpmgsmallbusiness.co.uk](http://kpmgsmallbusiness.co.uk) or call 0800 028 1028



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