

BREXIT

HOW ARE BUSINESSES RESPONDING?

JULY
2019

Introduction

This report provides insight into and intelligence on the latest local business sentiment on Brexit.

It combines data collected via the *Business Brexit Health Check* (a free online tool for businesses launched by the West Midlands Combined Authority and the CA area's three Chambers of Commerce on the 28th May 2019) with insight from the *West Midlands Quarterly Economic Snapshot* and anonymised business case studies. It is produced by the Greater Birmingham Chambers of Commerce.

The *Business Brexit Health Check* sections of this report will be issued monthly between July and December 2019 with more detailed analysis (such as by industry and size of organisation) becoming possible as responses increase. The *West Midlands Quarterly Economic Snapshot* sections of this report will be updated quarterly in line with the latest available data.

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Key Findings:

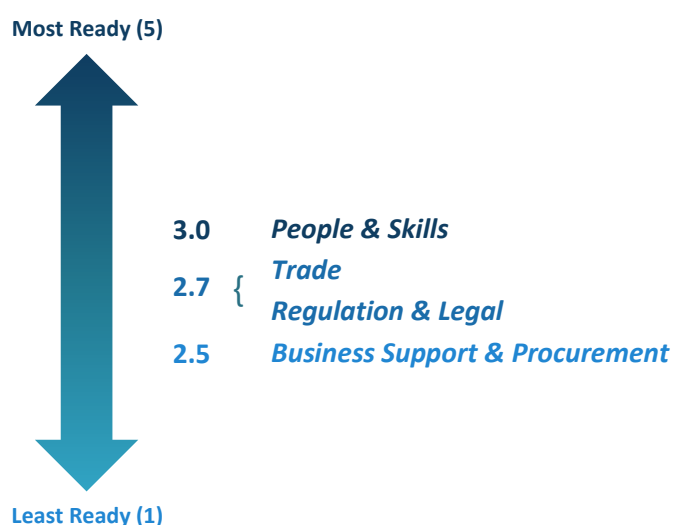
1. On average, businesses do not feel significantly well prepared for Brexit , scoring between 2.5 and 3 out of 5 on the *Brexit Readiness Index*.
2. Businesses report feeling most prepared for the *people & skills* aspects of Brexit and least for the *business support & procurement* aspects.
3. However, Businesses also report being exposed to Brexit related change in a higher number of areas within *trade* and *people & skills* than *business support & procurement* indicating that this lack of preparedness may stem from a lack of direct exposure to risks in this area.
4. Businesses are most commonly exposed to Brexit related change through their employees (pensions, professional qualifications, business trips and employing EU nationals) and trading arrangements (existing contracts with EU based organisations and EU based suppliers).
5. Businesses are most likely to have responded to Brexit by discussing the potential impact at a senior level. A majority of respondents have not undertaken a thorough review of their organisation to identify Brexit related risks (to the knowledge of the respondents).
6. Brexit related factors are the most commonly reported principal concern of employers in the West Midlands Combined Authority area followed by concerns relating to an increasing cost of doing business.
7. Regional business sentiment on improving profitability over the next 12 months remains strong while Capex investment remains sluggish, particularly among services sector firms.

July 2019 Report:

The Business Brexit Health Check Responses – 28th May to 30th June 2019

The *Business Brexit Health Check* presents employers with a range of questions split into four thematic sections: 1) People & Skills, 2) Trade, 3) Regulation & Legal, 4) Business Support & Procurement. Each thematic section asks employers to rate the extent to which they have researched the potential Brexit related impacts of the topic in question on their business and the extent to which they feel they have prepared.

Based on the Brexit Readiness Index¹ respondents feel most prepared for the *people & skills* related aspects of Brexit and least prepared for the *business support & procurement* related aspects.



Case Study: Small Manufacturer

“Whilst there is currently no firm directive on Brexit we are concerned about the potential loss of EU research and R&D grants. Soon after Article 50 was activated, we undertook a review and made sure we had filled our existing EU grant funded projects by November 2018. Since then we’ve been avoiding applying for new EU funding and have focused on undertaking various R&D projects in house in order to make use of UK tax relief schemes.”

Each thematic section also presents employers with a range of statements and invites them to select those that are relevant to their organisation. The options have been designed in collaboration with the Greater Birmingham Chambers of Commerce (GBCC) *Brexit Advisory Group*² to encapsulate the key areas in which employers could be exposed to Brexit related change.

On average, respondents identified 9.2 areas from the options presented where their organisation could potentially be impacted by Brexit related change in various different scenarios (with individual respondents ranging from selecting 1 option to 27 options).

Average Number of Potential Impact Areas Selected:



¹ *The Brexit Readiness Index is calculated using an average of the two weighted averages for the “researched” and “prepared” questions for each *Business Brexit Health Check* section.

² The GBCC *Brexit Advisory Group* is an advisory panel comprised of local employers and Brexit experts.

While businesses rated themselves as having prepared the least for the business support & procurement aspects of Brexit, they also appear on average less likely to be affected by Brexit related change in this area. This may indicate that fewer are preparing because fewer are exposed to risks in this space.

The most commonly selected options across all thematic areas are illustrated below.

Most Frequently Selected Potential Impact Areas:



Case Study: Small Manufacturer

“We manufacture our products at our factory in the West Midlands. We have just started exploring selling internationally and have had some early success in selling to new European customers. As part of our service, our staff travel with the product to install it on site. After Brexit, will our guys still be able to do this? Will they need work permits or special visas?”

In addition to the thematic sections of the *Business Brexit Health Check*, employers are invited to complete a small number of questions about their organisation’s Brexit preparations alongside general questions about the size, sector and location of their organisation.

In response to Brexit, businesses are undertaking a range of activity, most commonly discussing the potential impact at board and senior management level and undertaking reviews of key business functions. However, just over a quarter of respondents (26%) did not know what action was being taken.

Most Frequently Reported Steps Taken to Prepare for Brexit:



Case Study: Small manufacturer

“Our top priority is understanding how various Brexit “deals” or scenarios may potentially affect our supply chain and movement of goods in the UK. Around 90% of our supply chain is UK based but about a third of these do import from the EU and supply us on a distributor basis so we need to understand what this will mean for them (and by extension – the price and availability of our supplies).”

Respondents reported seeking advice from a range of sources, however 51% declined to provide an answer.

Most Frequently Reported Sources of Brexit Advice:



The West Midlands Combined Authority Quarterly Economic Snapshot – Surveying 20th May to 10th June

The West Midlands Combined Authority Quarterly Economic Snapshot (WMCA QES) explores survey data collected by the WMCA area's three Chambers of Commerce on key business sentiment indicators.

Respondents were invited to complete a free text question asking “what is currently your principal business concern?”. Brexit related factors (those responses that explicitly referred to Brexit or the UK's exit from the EU) were the most commonly cited principal business concern.

Most frequently cited principal business concern by theme



Respondents are asked to indicate whether they have seen an increase, decrease or no change in relation to a range of factors. The responses are analysed using a percentage balance score approach to give a complete picture of business sentiment. A score of over 50 is indicative of a growth sentiment (the higher the score the stronger the sentiment), 50 exactly indicates stagnation and below 50 is indicative of negative sentiment (the lower the score, the stronger the sentiment). Despite Brexit uncertainty, confidence in improving profitability remains strong, while Capex and cash flow balance scores indicate an overall sentiment of weak growth/improvement.

Capex Investment

Combined	55
Services	52
Manufacturing	61

Confidence in improving profitability

Combined	70
Services	71
Manufacturing	63

Cash flow

Combined	57
Services	57
Manufacturing	56

Case Study: Manufacturer – c.£12m per annum turnover

“My company is 100% owned by a German business. One of our UK divisions has been making good progress bringing a new, unique product to market that we’re predicting strong demand for. The project requires further investment to complete. However, the group CEO has decided that there will be no further investment in the UK business from Germany with all the uncertainty around Brexit. The other UK divisions can fund the project for another six months but that will deplete its cash reserves and the business will run out of cash by the end of the year. I am faced with the prospect of mothballing the project and laying staff off or spending the next six months trying to sell the profitable side of the business to keep the remaining team in a job.

Data Tables: The Business Brexit Health Check Report

Introduction & Sample Profile:

This report utilises data drawn from the West Midlands Combined Authority, Greater Birmingham Chambers of Commerce, Black Country Chamber of Commerce and Coventry & Warwickshire Chamber of Commerce **Business Brexit Health Check**.

This is a free online tool which provides participants with a personalised report, tailored to the responses they provide to a short set of simple questions about how their organisation is responding to Brexit. It was launched on the 28th May 2019. This report analyses 43 complete responses provided between the **28th May and 30th July 2019**. Reports will be issued on a monthly basis until November 2019.

Total complete responses: 43

Respondent Location	
GBS LEP	65%
BC LEP	7%
CW LEP	14%
Other	14%

Respondent Business Size (employees)	
Micro < 10	37%
Small < 50	37%
Medium < 250	16%
Large > 250	9%

Respondents by Industry (ISIC)	
Manufacturing	16%
Services	81%
Not Known	2%

WMCA Business Profile:

For comparison purposes, please see below for enterprises in the WMCA area by location, size and industry. Please note: the figures below are for the three Local Enterprise Partnership geography (GBS LEP, CW LEP, BC LEP) covered by this research.

Enterprises by Location	
GBS LEP	51%
BC LEP	23%
CW LEP	26%

Enterprises by Size (employees)	
Micro < 10	88.7%
Small < 50	9.2%
Medium < 250	1.6%
Large > 250	0.4%

Enterprises by Industry (ISIC)	
Manufacturing	7%
Services	93%

ONS: UK Business Counts (2018)

Data Tables:

1. People & Skills

To what extent have you researched the potential impact of Brexit on your ability to attract, retain and develop the right people for your business? (1 being not at all, 5 significantly)				
1	2	3	4	5
16%	23%	23%	16%	21%

To what extent has your organisation planned how you will respond to any Brexit-related impact (challenges or opportunities) on your ability to attract, retain and develop the right people? (1 being not at all, 5 significantly)				
1	2	3	4	5
7%	30%	28%	23%	12%

Please tick all that apply to your organisation	
My organisation employs staff from (non-UK) EU nations in the UK	49%
My organisation employs UK nationals based (non-UK) EU nations (e.g. in a subsidiary, local office or branch)	30%
My organisation actively recruits (non-UK) EU citizens to fill vacancies	19%
My organisation employs staff with professional qualifications	67%
My organisation has (non-UK) EU staff, clients or business partners undertaking business trips to the UK	47%
My organisation utilises a UK based pension provider	72%
My organisation utilises an (non-UK) EU based pension provider	5%
My organisation has staff undertaking business trips to the EU (excluding the UK)	60%

2. Trade

To what extent has your organisation researched the possible impact of Brexit on your business' ability to trade internationally? (1 being not at all, 5 significantly)				
1	2	3	4	5
23%	16%	35%	19%	7%

To what extent has your organisation planned how you will respond to any Brexit related impact (challenges or opportunities) on your business' ability to trade internationally? (1 being not at all, 5 significantly)				
1	2	3	4	5
23%	14%	37%	19%	7%

Please tick all that apply to your organisation	
My organisation buys goods from (non-UK) EU nations	44%
My organisation buys services from (non-UK) EU nations	26%
My organisation sells goods to (non-UK) EU nations	37%
My organisation sells services to (non-UK) EU nations	37%
My organisation buys goods or services from one or more of the 50 nations that the EU has trade agreements with (such as South Korea, Canada, Switzerland and Turkey)	35%
My organisation sells goods or services to one or more of the 50 nations that the EU has trade agreements with (such as South Korea, Canada, Switzerland and Turkey)	37%
My organisation sells goods manufactured/completed in the UK to other parts of the world	28%
My organisation buys goods made in the EU via a UK based distributor	21%
My organisation works with one or more distributor, agent or partner who sells our goods in the EU	33%
My organisation takes goods, machinery or other items into the EU on a temporary basis (e.g. for trade shows or tours)	12%
My organisation transports goods across EU nations	21%
My organisation trades in Euros or other non-UK currencies	33%

3. Regulation & Legal

To what extent has your organisation researched the possible impact of regulatory and legal changes arising from Brexit on your business? (1 being not at all, 5 significantly)				
1	2	3	4	5
23%	21%	33%	14%	9%

To what has your organisation planned how you will respond to any impact (challenges or opportunities) from regulatory and legal changes arising from Brexit? (1 being not at all, 5 significantly)				
1	2	3	4	5
23%	16%	33%	19%	9%

Please tick all that apply to your organisation	
My organisation has a UK Headquarters with office(s) in another part(s) of the EU	16%
My organisation has an EU Headquarters with office(s) in the UK	7%
My organisation trades in goods regulated by an EU agency	14%
My organisation trades in goods accredited to EU standards (e.g. CE Mark)	28%
My organisation holds EU registered intellectual property (trademarks, patents, registered designs, copyright etc)	19%
My organisation has contracts with organisations based in other parts of the EU	42%
My organisation transfers personal data into or out of the UK	40%

4. Business Support & Procurement

To what extent has your organisation researched the possible impact of Brexit on your business' ability to access funding and business support or compete for public sector contracts? (1 being not at all, 5 significantly)				
1	2	3	4	5
30%	14%	42%	7%	7%

To what extent has your organisation planned how you will respond to any Brexit related impact (challenges or opportunities) on your business' access to EU funding and business support or compete for public sector contracts? (1 being not at all, 5 significantly)				
1	2	3	4	5
30%	12%	44%	7%	7%

Please tick all that apply to your organisation	
My organisation is currently receiving Horizon 2020 funding	0%
My organisation is currently receiving other EU funding	16%
My organisation works with the Enterprise Europe Network	2%
My organisation receives EU funded business support (e.g. from a Growth Hub or via a university)	14%
My organisation is headquartered in the UK but competes for/holds existing contracts with EU based public sector organisations	7%
My organisation is headquartered in the EU but competes for/holds existing contracts with UK based public sector organisations	2%

5. General Questions

To your knowledge, has your organisation undertaken any of the following in relation to Brexit? (please tick all that apply)	
Discussed the potential impact of Brexit on your organisation at management and board level	60%
Conducted a review of your organisation to identify areas that may be impacted	37%
Conducted a review of your major suppliers and/or customers to identify organisations that may be impacted	28%
Don't Know	26%
Undertaken proactive communication & engagement with key groups (e.g. EEA employees, investors, suppliers, customers)	19%
Adapted import and/or export strategies	19%
Altered your capital expenditure and/or investment plans	16%
Invested in training staff	14%
Increased cash reserves	9%
Adapted recruitment and/or retention strategies	7%
Created or expanded an EU base/subsidiary	7%
Increased stock holdings	7%
Prefer not to say	7%
Inserted Brexit clauses into contracts	2%

Has your business sought professional advice on Brexit from any of the following?	
Don't know/prefer not to say	51%
Legal Expert	12%
Bank	9%
Chamber of Commerce	9%
Consultant	9%
Department for International Trade	9%
Freight Forwarder	9%
Accountant	7%
Other	7%
Currency Solutions Provider	5%
Trade Body	5%
Growth Hub	2%
Other public funded support/service	2%
University	0%

Data Tables: The West Midlands Quarterly Economic Snapshot

Introduction & Sample Profile

The West Midlands Quarterly Economic Snapshot provides an up to date picture of the performance of the West Midlands Combined Authority's business community.

This is based on responses gathered from quarterly economic surveys conducted by The Greater Birmingham Chambers of Commerce, Black Country Chamber of Commerce and Coventry & Warwickshire Chamber of Commerce.

The Q2 2019 fieldwork took place between the **20th May and 10th June** and received 823 responses.

This report refers to a small number of key Brexit related indicators. The full report containing information on areas such as hiring intentions, domestic and export demand can be accessed via the Greater Birmingham Chambers of Commerce website.

Respondents Per Chamber of Commerce	
GBCC	37%
CWCC	50%
BCCC	13%

Respondents by Business Size (employees)	
Micro < 10	49%
Small < 50	36%
Medium < 250	11%
Large > 250	4%

Respondents by Industry (ISIC)	
Manufacturing	23%
Services	77%

Data Tables:

What is currently your principal business concern?	
Brexit	22%
Increasing Costs	14%
Competition	13%
Customer Demand	11%
Skills Gaps	8%
Managing Growth	6%
Other	6%
Economic Uncertainty	6%
Political Uncertainty	4%
Cash Flow	3%
Government Funding	2%
Regulation	2%
Access to Finance	2%
Lack of Resource	1%
Technology	1%

During the past 3 months, have your investment plans for plant/machinery/equipment			
	All Respondents	Services	Manufacturing
Increased	25%	23%	33%
Stayed the Same	59%	60%	56%
Decreased	16%	17%	12%

Over the next 12 months do you expect profitability to:			
	All Respondents	Services	Manufacturing
Increase	51%	53%	43%
Stayed the Same	37%	36%	39%
Decrease	13%	11%	17%

During the past 3 months, has your cashflow:			
	All Respondents	Services	Manufacturing
Increased	32%	32%	32%
Stayed the Same	49%	50%	47%
Decreased	19%	19%	21%

YOUR BESPOKE GUIDE TO

BREXIT

The **Business Brexit Health Check** is a free online tool. Businesses complete a short set of simple questions about their organisations and receive an automatically generated personalised report. The report highlights the key Brexit related risks and changes that they should be aware of and recommended steps to take to support their Brexit preparations.

It has been launched by the West Midlands Combined Authority, Greater Birmingham Chambers of Commerce, Black Country Chamber of Commerce and Coventry & Warwickshire Chamber of Commerce.

Find out more

www.wmca.org.uk/brexithealthcheck

If you are speaking to any businesses who are expressing concerns about Brexit please do signpost them to this new regional resource.

As well as being a resource for businesses, the Business Brexit Health Check is a source of intelligence for the WMCA and partners on how businesses are impacted by and preparing for Brexit.

Anonymised data from the report will be used to inform policy responses and the provision of business support in the area.

More Information

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This report was produced on behalf of the West Midlands Combined Authority by the Greater Birmingham Chambers of Commerce.