

BREXIT aftermath– *Proof that 'Winging It' is never an acceptable strategy.*

Navigo is advising clients **to immediately re-evaluate the direction and calibration of strategic plans.**

Although strategic plans are custom developed, this advisory note is a practical, politically non-judgemental note to flag a selection of factors that may warrant fresh thinking in the light of BREXIT.



Where We Are....

- Sadly, all of the main protagonists in the referendum were unprepared for what followed. Proof that in important matters, **'Winging It' is never an acceptable strategy.**
- Surprisingly businesses made the same mistake, even though current events were **reasonably foreseeable** (long campaign, close polls, David McWilliams' predictions) and could be damaging.
- Why? We **undervalue and underinvest in planning and risk management thinking** in critical aspects of our culture, including our political culture. These techniques are less about compliance and more about readiness and lessening the probability and impact of damage.
- BREXIT timing is now being driven, firstly, by political factors and, secondly, by the lack of any plan. As we have learned in Ireland, **the political timeclock ticks a lot more slowly than business** and markets. Significant uncertainty will become the new norm for the balance of 2016 and into 2017.
- Economic goals like productivity growth, digital innovation will fall down the political agenda for a while as Europe grapples with **the shape of one disconnection from a highly connected world.**
- In this note we look at **actions that need to be immediately taken** to look at the Political, Economic, Social and Technological environment; insights into markets and customers; the impact of BREXIT on people and competition for talent; disruption issues on supply chains; currency risks; delays in investment and other key issues.
- In times of uncertainty, those who are able to correctly **adapt their thinking quickly and manage their risk exposures** will survive and (relatively) prosper.
- Now more than ever, businesses need the benefit of **a clear, fully reasoned and documented strategic plan** to navigate the way. This needs to be backed up by a **working financial model** that links to planning, performance measurement and communication within the business.
- Demand for techniques that deal with uncertainty, including **scenario testing of the strategy/ financial models** and **risk management tools and techniques**, will rise.

Review of PEST

- Clients should review the “PEST” component of the corporate environmental scan – dealing with **Political, Economic, Social and Technological** factors that impact your business. The economic considerations are numerous, including significant shifts in exchange rates between sterling, euro and dollar; changing regulatory landscape for many businesses - with systems, processes, market and products implications. A number of these changes are touched on below.
- Where we end up, and how long it takes, will be **driven more by politics** than the market. Political stability is a bit like health – you only really notice it when it disappears. Ireland was beginning to adjust to a new political arrangement but BREXIT brings this to another level.
- Consider that one or any combination of a fresh Westminster General Election, a second referendum or a parliamentary reversal of the BREXIT vote are not remote possibilities before year end 2016. Some kind of reversal or a ‘BREXIT-lite’ cannot be discounted.
- The next 15 months sees elections in key countries (Germany, France, Italy, Netherlands).
- The scope of the Political Review also needs to include aspects such as Scotland, Northern Ireland and the Crown dependencies that commonly feature in tax and financing structures (Isle of Man, Channel Islands) whose complex relationships with the UK, EU risk being changed in this upheaval.

First and foremost, all businesses are about customers and markets.

- Impossible at this stage to predict future **market access deals** but understand how they work.
- Per Peter Drucker, the **real profit centre in a business** is a customer who cheque doesn’t bounce.
- The referendum shines a light into interesting aspects of the **UK consumer market** including sizable disaffected regional segments and a persistent class divide. There is a marked **age divide** and, if this is important to you, you need to understand the millennial consumers (b.1980+).
- Understand the **full scope of your business in the UK**. Even if it is NIL, currency changes may make UK imports cheaper, putting your home market under pricing pressure. Know where you stand.
- If you offer credit in the UK, urgently **assess credit worthiness**. Bank lending is going to get more expensive there and business cashflow may be squeezed. Can you afford longer debtor days?

People are the core of any business

- People are shaken. **Free movement of people** (some may say ‘labour’) is the key political issue.
- The initial surveyed majority response from UK business leaders was a **planned freeze on hiring** but this has softened to “too early to tell” in recent days. Don’t underestimate the impact of these discussions (restrictions on free movement, hiring freezes) will have on existing migrants.
- Assess the impact of a **hard Irish border** between North and South and also East-West.
- Likelihood of **increased immigration** into Ireland as a haven for English speakers.
- Ultimately as the UK regains its stature there is a risk of a **“brain drain”** away from Ireland because of its proximity (geographical and cultural) in re-staffing critical parts of the UK economy.

- Expect changes in labour law and a more complex battle for talent. EU rules regulate the recognition of qualifications, giving rise to significant **risks/opportunities in educational services** from the cost of educating your children through to hiring for your business.
- One of the enduring areas of concern and difficulty is around **pensions and investment**. BREXIT, at least in the wider EU, portends a continuing long cycle of abnormally low interest rates. Not only does this impact pensions returns but it also builds HR issues in the workplace and also potential inter-generational issues in business and society.

Currency risks

- This is not an academic discussion. **Currency losses go straight to the bottom line** and in times of volatility these can endanger the business, particularly with banks, as they are 'covenant busters'.
- **Gloomy prospects ahead for sterling** and the **issues with the Euro have not gone away**.
- There have been many examples in economic history of governments without a currency (think Ireland pre 1990s and the link to Sterling) but **there are no successful examples of a currency without at least one unified government underwriting it**. With European political integration seemingly more distant after BREXIT (arguably), the euro will likely come under more attack.
- Business people are rarely also experts in currency trading. **Use the currency risk management tools** but only do so after you **understand the economics of your business** and your commitments to your stakeholders. That means understanding **your effective breakeven levels** after factoring in every commitment you have from paying the wages through to meeting bank covenants.
- Using these tools depends on being credit worthy and having sufficient security that the bank can access. Know where you stand and **invest the time to be in a position to access these tools**.
- If you don't have a capital buffer and you can't make the economics work, consider **exiting** particular territories and/or developing new markets instead.

Communicating with external stakeholders is key in times of uncertainty

- More than ever, stakeholders (including funders) will need to see **good governance**, confidence in planning/risk processes and timely and accurate information about the business.
- Even if you do have a financial model that can be flexed, **start Version 1 of your FY2017 budget** now. Using initial rough estimates, see what a 1.7% downward revision in UK GDP, a 0.5% drop in Irish GDP and an Euro/£ FX rate of 0.85 will do to your business performance and covenants.

Understanding your value chain and supply chain, particularly if your sector is most exposed

- Think **banking; property; energy; tourism; travel; agriculture and food; traded consumer goods**.
- If these sectors are upstream or downstream from you in the value chain you will see significant **change and economic pressure** around BREXIT. The most exposed sector is the financial services industry in the City, including London's traditional role in the insurance sector.

- **Understand the impact on your supply chain.** Even if you are not located in the UK, can you afford currency driven variations in the cost of inputs? How stable are your UK suppliers post BREXIT?
- Clear implications in the supply chain if the UK is used for **sourcing or transshipment of goods.**
- For those staying in the EU, there is a higher probability of **regulatory centralisation** in Brussels.
- Post BREXIT, there are now serious question marks over trade deals such as **TTIP.**

Irish businesses and investment levels

- UK government may stall **major infrastructure works projects worth tens of £billions** (new airport runway; military projects; Hinckley Point nuclear plant; high speed rail lines; London super-sewer.)
- **FDI investment** in UK will likely pause in the short term. A obvious and sizeable opportunity to attract businesses to Ireland but in the medium term UK will be free to trade in incentives so Ireland will need to be highly competitive. Outside Dublin, there is an issue about the capability of commercial property markets to provide suitable new buildings for an influx of businesses.

M&A and financing transaction

- **Financing transactions may be delayed.** Financial markets hate uncertainty. These transactions range from smaller M&A to the planned denationalisation of UK banks; to the potential timing of the floatation of AIB; to the rescue of Welsh steel industry.
- Down the line, we see **a market in UK companies reversing into Irish corporate vehicles**, and forming alliances and other structures to access EU markets. If you want to sell your Irish business, start now to get it in shape. In time there may be a flow of interested UK buyers.

Technology

- What does “take back your borders” mean in the borderless world of **technology?** UK may formally remain as an EU member but technology policy is an area where the effect of UK’s diminished status and reduced voice will take effect quite quickly.
- Possible changes in EU approach on **Intellectual Property, Data Protection, Privacy and regulation** of technology providers/media.

Understanding Central bank actions

- Understand the **centrality of the Central Bank.** Arguably the Bank of England was the only functioning aspect of UK’s response to the crisis. The ECB holds a similarly critical role in underpinning the European economy. Clients need to build a detailed understanding in this area. Absent the current actions of Central Banks, our economies would look radically different.

Understanding competitors

- Don’t forget to review your **Competitor Analysis**, as you may not be the most adversely affected player. Look at the competitors who may benefit from “State Aid” going forward.

Timeframe

- The **2-year timeframe** in Article 50 relates only to Britain's exit from the EU. It is not directly concerned with the time to put in place alternative trade arrangements or rewrite/re-nationalise over 12,000 EU regulations that apply to the UK market. BREXIT will play out over the next decade.

Suggested executive action

1. Conduct a high level review to **determine critical factors to be assessed**.
2. **Involve the Board, management team** (potentially all staff) in a facilitated session to understand the issues and support communications.
3. **Identify strategic decisions** that warrant immediate re-evaluation.
4. Accelerate normal approach to **amendment/problem solving** in your strategic planning process.
5. **Identify additional interventions, stabilising factors and tools** to be positioned to manage through the uncertainty of BREXIT.
6. Set up **monitoring and information flows** around the issue.
7. **Communicate with stakeholders**, especially external funders.
8. **Change and communicate the plan**, as necessary.

If you find this content relevant, Navigo can assist with all aspect of dealing with the strategic challenge of BREXIT. Contact our Managing Director, Brendan Lenihan on (01) 477 3404 or at www.navigo.ie.

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Navigo Consulting is a business consultancy in the areas of strategy and business planning; improving governance and navigating major change. Our consultants are experienced professionals and have seen business from a number of perspectives including both as executive and non-executive Directors of very significant international businesses as well as years as professional consultants. If we can help your organisation to succeed with a business objective that is important to you, contact our Managing Director, Brendan Lenihan on (01) 477 3404 or contact us through www.navigo.ie

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