

Brexit's impact on 4 key sectors

Few, if any, companies anticipated Brexit. Now we're all being rocked by the uncertainties, since no one knows quite how this messy divorce will play out. Of course, some sectors are being harder hit than others.



March 21, 2019

What are the impacts of the U.K. leaving the EU? We ask professors and executives to weigh in on a few key industries and areas.

Automotive sector

By [Africa Ariño](#), Joaquim Molins Figueras Chair of Strategic Alliances at IESE

The automotive sector, perhaps more than any other, depends on highly interconnected

global supply chains and frictionless trade to ensure components arrive on time, so cars can be assembled and shipped elsewhere. Investments and job security in the automotive industry require long-term planning, with development cycles of up to five years — precisely what carmakers affected by Brexit don't have.

Car manufacturers were already losing money before the U.K. decided to hold a referendum on EU membership, and Brexit didn't help. General Motors, for instance, had been on track to turn things around after more than a decade of losses for its Vauxhall/Opel acquisition, but the 2016 Brexit vote to leave the EU, followed by the 2017 triggering of the countdown, led to currency shifts and pound devaluations that hit sales hard. This prompted GM to sell its U.K. holdings to the French group PSA (Peugeot-Citroën). This deal gave Vauxhall a lifeline, while PSA thinks it could be useful to keep a U.K. base for U.K. production post-Brexit, thereby avoiding unfavorable export/import costs that may arise when the U.K. trades under non-EU tariffs. The U.K. government has promised to help the sector, not least to prevent further job losses (Jaguar Land Rover and Ford have cut 6,000 jobs over the past two years).

The planning uncertainty of Brexit is compounded by the high cost of fielding competitive new models, the push for cleaner alternatives to diesel, and the need to prepare for the autonomous age. To manage these hardships, a good option is to work in alliances, even with rivals. We see this in Ford and Volkswagen's decision to work together on self-driving cars. Stung by Brexit, Ford needs an EU partner to continue building Ford-branded products — particularly commercial vehicles, one of its strongest segments — in Europe. And VW, still reeling from its emissions scandal, needs Ford's access to the U.K. market, a key one for VW.

Aerospace sector

By Chris Daniels (MBA '00), Chief Commercial Officer, [Satavia](#)

The most difficult aspect of Brexit has been not knowing — for example, whether U.K. companies can continue to supply EU aerospace companies, or whether EU-based airlines can have U.K.-licensed pilots. Short-term impacts, such as grounded aircraft or recognition of pilot qualifications, are likely to be resolved quickly. But longer term, manufacturing will likely shift away from the U.K. and into the EU.

Big market players are better equipped to implement sweeping plans like shifting capital, personnel and production to the EU. Larger companies have been able to hedge their bets by having operations and legal entities in the EU and the U.K. But smaller companies, like ours,

cannot do this so easily. We're more limited in the actions we can take. Instead, we have to rely on promises that EU nationals will be permitted to stay and work in the U.K. (although we are now looking at non-EU nationals for future hires). We have to dedicate more resources to keeping abreast of legislative changes with regard to supplying EU companies. In short, we have to be nimbler to react when the final outcome is known.

For any company, it has been difficult to plan adequately. If there's any lesson, it's that those in authority must put together some clear guidelines for business early on. Going to the brink may be a useful negotiating tactic, but it's fundamentally unhelpful for business. With the end-points constantly shifting, being able to offer some points of clarity throughout the process would have been helpful.

Food & beverage sector

By [Adrian Caldart](#), academic director of IESE's Food & Beverage Industry Meeting

Historically, the U.K. has always been a big importer of food-and-beverage-related goods. Just within the EU, the U.K. imports twice what it exports, amounting to roughly \$32 billion of goods, especially fresh fruit and vegetables, including 80% of its tomatoes and 90% of its lettuce. Brexit calculations predict an increase in the overall cost of food in the U.K. due to assumed tariffs. Logistics will also become more complicated with the return of custom checks and new regulations. Strong price increases and logistical difficulties for basic staples will affect the distribution sector as well as food chains like McDonald's and Kentucky Fried Chicken, which have already warned of substantial price increases and potential product shortages.

The uncertainty of the past three years has harmed the food-and-beverage industry, even though British and European companies have been trying to reorganize their value chains and develop alternative supplies and markets. The U.K. will need to produce locally quite a few goods that they were importing. There may be some opportunity for substituting imports with more locally produced fruit, such as apples and pears, to compensate for the lack of foreign produce. A devalued pound could make a local producer more competitive on global markets.

The U.S. (as a big importer of food) and China (with its rising middle class and need for proteins) are interesting markets to explore, along with Latin America. However, in emerging markets, the social distribution and purchasing power of customers is rather limited, so you

may end up with niche rather than mass markets.

Given that approximately 75-80% of EU food-and-beverage trade currently happens within the EU, the EU will remain a focal market for the U.K. But Brexit sees the collapse of many well-oiled value chains, increasing the cost of doing business for everybody — albeit worse for the U.K. because, while the U.K. market is important for the EU, the EU is much more important for the U.K.

[Read highlights from the 6th edition of the Vademecum on Food and Beverage Markets](#)

Travel sector

By Edward Orr (MBA '00), cofounder & CEO, [Mr & Mrs Smith](#)

Brexit hasn't — yet — led to a genuine recession in the U.K. (which is still our largest customer market, followed by the U.S.) so overall the travel industry remains relatively healthy. However, the uncertainty and emotive predictions about the impact on travel between the U.K. and continental Europe — grounded flights, visa requirements, higher insurance premiums — have had a short-term impact on our business.

We're continuing to see strong year-on-year growth in visitors to our website from the U.S. Last year, we did a major marketing push in the U.S., focusing more of our efforts there. U.K. visits are somewhat flatter. Interestingly, Q1 bookings have been strong, while European summer bookings have been weaker. It feels like people are waiting to see exactly what will happen. We're optimistic we'll see a bounce once a Brexit decision has been made. I think most people are so bored by it all they'll just want to book a summer holiday.

Being a global operation, we employ people across the EU. We're doing all we can to support them through this uncertainty, offering advice and, in some cases, inter-office transfers.

My advice is: be prudent, be brave and keep focusing on building your business. Above all, stay optimistic. Whatever form Brexit eventually takes, I'm hopeful our modern economies will be able to handle it and life will move forward quickly. Everything from fashion to exchange rates to ash clouds can impact our industry, but the joy of travel and the value of experience will always spur people to seek escapism — even, and sometimes especially, in the face of uncertainty.

From here to Brexeternity?

By [Mike Rosenberg](#), associate professor of Strategic Management at IESE

Brexit is the perfect example of something I've been saying for years: managers don't spend enough time on issues of geopolitical uncertainty. When the Brexit vote happened in 2016, nobody in the international business community really expected Leave to win. But by not taking it seriously, businesses now find themselves with bigger problems. Companies with integrated global supply chains cannot afford to think that "business as usual" is ever the only scenario.

Many companies have a function called corporate affairs, but often it exists to explain the company to governments, not to explain the world to executives, which I think is the right function to have.

When you think about business and geopolitics, you have to start with the aspects that are fixed: the U.K. is an island cut off from Europe; that won't change. Then there are semi-fixed aspects that might change over 10, 20 or 30 years. Being part of the European Union for 40-plus years was a semi-fixed aspect, but people tended to treat it as fixed. Then there's what's going to happen over the next two, three or five years, which is where we are now.

When you look at an event like Brexit, you need to plan for different possibilities. What would happen if there's a delay? Obviously, having plans, products and people in place for different eventualities takes time and money, and requires a certain amount of organizational resilience. But constantly evaluating one's ability to fulfill obligations to customers, employees and shareholders is in the manager's job description, right?

The U.K. has got itself into a bit of an impossible situation where currently the only way out appears to be delaying Brexit, until we end up with what people are calling "Brexeternity." But being stuck in limbo is no solution — least of all for business.

An edited version of this article is published in [IESE Business School Insight magazine #152](#).



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