The global pandemic is further compounding the challenges of Brexit. A recent report by the LSE suggests that the dual impact of the global pandemic and Brexit will leave little time and resources for businesses to adapt and mitigate risk. Many businesses have used up reserves and stockpiles earmarked for Brexit during the pandemic, leaving them further exposed.

As a result of the uncertainty, Brexit remains a key topic on the risk registers of many organisations and according to the 2020 Deloitte Report of Reports, 24% of organisations cite it as a principal risk to their business strategy whilst a further 42% include it within a broader risk category. Brexit is also a key topic on mid-year earnings calls for 40% of the companies of the FTSE 100 industries analysed by FactSet.

Now that a deal has been agreed, this is the start of a new relationship, which, in itself, will take time to bed in. Although there will be inevitable tweaks and changes to the ways of working and the increase in bureaucracy & regulations, now is the time to focus on the next chapter of Brexit.

Engineering, Construction and Operations Industry

Engineering, construction and operations industry is used to cyclical downturns, but never before it has faced so much change and uncertainty. Projects are continuing to increase in complexity, there is mounting pressure to design and construct in more efficient and sustainable ways, while the workforce experience continues to decline rapidly, and productivity remains stagnant. Additionally, Covid-19 has impacted the UK construction industry due to supply chain issues, shortage of subcontractors and materials, termination of contracts for cost control and new procedures to manage the health and safety of the workforce.

Many EC&O companies are getting ready to manage the compounding effects of Brexit which is expected to result in skills shortage; increase in input costs with changes in import/export tariffs for construction material; changes in regulations and standards; and loss of investments for infrastructure projects – such as High Speed 2- which are funded by the European Investment Bank(EIB) and the European Investment Fund (EIF). Brexit has brought challenges but there are opportunities too. The highly fragmented construction industry is likely to undergo consolidation via mergers and acquisitions. Consolidation offers potential synergies in design, procurement, sales, and corporate overhead. The long-term outlook is also positive, owing to the persistent shortage of quality housing in the UK and increasing demand for new infrastructure over the next 20 years. However, effective management of Brexit needs careful navigation of uncertainty and building up of resilience by establishing practical steps along several dimensions:

Manage the projected skills shortage: The industry relies heavily on the availability of both highly skilled specialists and low skilled labour. Access to the right skills and talent at all levels of the industry is required to be able to deliver sustainable growth post-Brexit. Therefore, organisations should structure and execute their post-Brexit talent strategy to retain, attract and engage talent.

Additional Resources:

Employee Experience management

Talent Management

Construction

Manage debt and liquidity: In the short-term, organisations may have to manage a decrease in demand as residential/commercial projects and infrastructure investments are dampened by low GDP growth, high levels of unemployment and the growing deficit of the governments. Companies with high debt and low reserves will need to forecast cash flow accurately, manage liquidity, and mitigate risk.

Additional Resources:

Risk Management

Reduce input costs: Organisations may need to manage their input costs aggressively as importers and exporters may face duties or limits on quantities, which could potentially lead to a shortage of materials or an increase in costs. For example, bringing intelligent procurement to the organisation will improve project schedule performance and improve margins while delivering higher-quality projects and a seamless experience for people across the entire value chain.

Additional Resources:

Intelligent Spend Management

What is Strategic Sourcing

Rethink supply chains: The trade deficit between total imports and total export for construction products and materials is more was more than £10billion in 2019. The delivery of most goods works on just-in-time basis; therefore, keeping up the productivity depends on the ability to move products and materials efficiently across the border and through the ports. UK businesses should see the current high-uncertainty environment as a spur to rethink their supply chain strategies and make them more resilient.

De-risk Contracts: Thousands of contracts across each organisation may need to be renegotiated or terminated - as the UK leaves the EU - due to implications on customs, duties, tariffs and freedom of movement etc. Therefore, it is crucial that companies have a contract management platform that can manage all regulatory changes that affect the content of the contract.

Additional Resources:

What is contract lifecycle management

Introducing SAP S/4HANA® Cloud for Enterprise Contract Management and Assembly

Regulatory changes: Customs management, product quality standards, product marking regulations, working time regulations and agency worker regulations may be reviewed post-Brexit. Managing these changes is important to avoid costly delays to import/export processes and mitigate financial and compliance risks.

Additional Resources:

Construction