



FOR SMEs
COSTS
REMAIN THE
BIGGEST
CHALLENGE
POST-BREXIT

What are some of these challenges?

Nine months on from the end of the transition period and with the focus on economic recovery from the pandemic, it might seem to some that the issue of Brexit has faded into the background. But for others it is at the forefront of their mind. Headlines reporting driver shortages, 71 pages of additional paperwork and more delays still hit our inboxes and news channels.

Small and medium-sized enterprises (SMEs) continue to be hit simultaneously with Covid and Brexit and the economic impact has started to show. Atradius reported UK international trade collapsed 14.3% y-o-y in March 2021 as the end of the transition period and imposition of a third national lockdown took their toll. Trade between the UK and European Union has dropped to levels unseen since early 2016. So, whilst there may be a lasting effect from the pandemic, Brexit is still evidently playing a large factor in reduced trade.

“ A recent survey from the North East England Chamber of Commerce found that **75% of respondents had difficulties in trading post-Brexit**, reporting it had either a negative, or very negative impact on their companies. But what does this actually mean, for SMEs almost certainly additional costs, impact on hiring, hits to the bottom line. ”

This article is part 1 in a series which focuses on three areas of difficulties that Britain's SMEs face continue to face: **increased costs**, labour shortages, and logistics.

CONTINUED COMPLEXITIES

The introduction of the Trade and Co-operation Agreement (TCA) with Europe has created a whole new range of operational procedures and additional bureaucracy that now poses a serious threat for certain business operations across European borders. Rules of origin for products that are imported into the UK, then exported to the EU are causing difficulty for some firms. This difficulty is exacerbated with the additional complexity of VAT issues and the time and trouble to get stock through customs.

INCREASED COSTS

Nearly a third of British companies trading with the European Union have suffered a downturn or loss of business since post-Brexit rules came into effect on January 1, according to a survey by the Financial Times (FT). The report that was published in conjunction with the Chartered Management Institute (CMI) and Institute of Directors highlighted that SMEs had been hit hardest, being significantly more likely (35%) to report that the end of the Brexit transition period had a negative impact on their businesses' turnover — compared with those in large organisations (23%). We're not talking small numbers, businesses reported that in some cases prices have risen by 30 to 40 per cent due to extra duty, value added tax and shipping costs.

Many SMEs have been forced to cut jobs as a result of rising prices, we look more at Brexit implications on labour in part 2 of this series.

Alfred van Pelt, Managing Director of Something Different, which distributes clothes, gifts and other merchandise to small retailers around Europe, halved his workforce after Brexit. Last year the business was sending out 2,500 parcels to EU customers every day at peak trading. Today, the number is more around 100.

VAT, duties and increased freight cost can make goods unprofitable and unattractive for customers to buy. When parcel value is less than £30, EU customers are reluctant to cover shipping costs and import declarations which can in some cases reach £17.50 (over 50% of the parcel value).

Zoe Alexander, a specialist in children's sports clothing, relocated the whole company and family to Romania in order to avoid the costs and bureaucracy caused by leaving the EU. Moving back inside the single market, means that the company is able to transport goods in bulk, thus avoiding the charges on individual items that have led to higher costs.

VAT TREATMENT

From July 1, new EU-wide rules came into effect, which alter the VAT treatment of the business-to-consumer trade across the EU. The new rules stop the need for businesses to register in multiple member states to gain access to the EU marketplace. Instead, UK retailers can opt to register in one single EU Member State and file a new One Stop Shop (OSS) VAT return in order to account for VAT on the sale of goods throughout the EU. An estimated 26,000 ecommerce sellers will have to register for the OSS tax system.

HMRC and the UK government have set up a £20m Brexit support fund to help SMEs with the transition to a new EU VAT system. But as small businesses can only claim up to £2,000 to address issues such as VAT: this will only go so far!

Nearly a quarter of businesses that trade with the EU have had to relocate some operations or staff, according to the IoD survey. But, this decision should not be taken lightly, it presents its own challenges, it can lead to higher costs and the transfer of jobs from Britain to the EU.

The network exists

Here at Channel Capital, we have the capability, local knowledge, and support network to make the transition to set up in mainland Europe (or even the decision to do so) easier for an SME.

Funding

Whilst we currently only fund businesses that are based in the UK, Belgium, Netherlands, and Germany we can fund export sales with the whole of Europe. We not only provide working capital, invoice finance up to 95% advance rate but can also provide credit insurance and debt collection capabilities as part of the package.

Credit Insurance and Collections

After 1st January, both EU and UK law requires companies to "have a door to knock on" if there are any disputes over payment. Compliance with customs changes will treat the UK as if it were any other non-EU country. This puts even more emphasis and importance for SMEs on having a local presence, to have an understanding of the process of collections, and a knowledge of local languages.

Our core language skills include Dutch, German and French which allows us to collect outstanding invoice payments from buyers/debtors as and when required by our SME clients.

Legal Support

If you are thinking of setting up an office in Europe, we can help to connect any SME to legal and structural experts to ensure that the correct due process, compliance, and forms are filled in.

At the end of the day, here at Channel we want to help UK SMEs who are thinking of setting up in Europe. Whether funding, insurance, outsourced collections or legal frameworks we have an existing network of people we would be happy to connect you to, and help you make the right decisions for your business.

For more information contact us today



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