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AND PROCUREMENT
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Britain’s Prime Minister Theresa May has triggered Article 50 marking the start of two years of negotiations to thrash out a deal for the country’s exit from the European Union (EU).

If all goes according to plan, UK will quit the EU by March 2019 at the latest, ahead of the European Parliament elections in May of that year.

Commodity: Commodity markets will be impacted on account of strengthening or weakening of currencies and broadly follows the overall demand/supply dynamics. The U.S. dollar is expected to strengthen against major currencies until uncertainty over Brexit ends. And since commodity prices, at times, tend to react to the value of dollar, it could lead to price swings. This could have a cascading effect wherein commodities can be pricier for other currencies, leading to weak demand.

Currency: The pound is expected to face new challenges as questions linger over the inherent strength of the UK economy. The euro already has weakened since the 2008 recession as the continent continues to battle high debt load. There could be new structural changes to the Euro in the coming decade.

Labor Movement: The EU framework provides for mobility of labor. When Britain formally exits the EU there would be shortage of workers in the country, and wages can artificially increase in the short-to-medium term. The flip side is that the country will have complete freedom to restructure labor laws, which could be more conducive for the domestic economy.

This document outlines the possible Brexit impact on 15 procurement categories. Write to us in case you would like to know the Brexit impact on other categories. contactus@beroe-inc.com. For a complete list of categories, please visit our Beroe LiVE page: https://www.beroeinc.com/beroe-live/
Impact on sourcing

Travel Services

Increase in Travel Costs for Both Travel Management Companies (TMC) and Corporate Buyers
The devaluation of pound sterling and uncertainties over cross-border travel and visa formalities are expected to increase travel costs.

Action Item
Watch out for possible increases in travel costs and collaborate with TMCs to identify the best possible rates for airlines and hotels.

Increase in Air Fares
Uncertainties in regulations and the removal of favorable conditions such as an open flight market which has enabled cheaper flights, might have a significant impact on increasing airfares.

Action Item
Companies may have to prioritize the need for travel and should explore opportunities to use virtual options to replace travel wherever possible.
## Increases in Travel Costs for Both TMCs and Corporate Travel Buyers

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**IMPACT AREA:** Corporate Travel Buyers and TMCs

- A potential increase in the cost of travel for both TMCs and corporate travel buyers due to uncertainties over visa formalities and the devaluation of the pound sterling.
- Travel costs might increase due to potential restrictions on working in EU states and uncertainty over tariffs, taxes and the cost of complying with any regulatory implications. The U.K. government has to negotiate with EU states to get full access to the market.

## Increase in Air Fares

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**IMPACT AREA:** Buyers of Travel Services

- A potential increase in air fares as large portions of aviation costs are priced in U.S. dollars, and there might be new and higher charges for travel necessities such as travel insurance.
- The huge success of no-frills airlines have made EU regulations open up the flight market, increasing the competition and ultimately leading to cheaper flights to more destinations. BREXIT would impact the aviation industry, as the conditions that helped create cheaper flights would no longer exist and this would most likely lead to higher air fares and fewer scheduled flights between the EU and the U.K.
- However, there would not be an immediate impact on flight prices, as this will depend on how the government chooses to negotiate the terms of the U.K.’s relationship with the EU.
Impact on IT Services Outsourcing

Rise in Demand for IT Outsourcing

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IMPACT AREA: Enterprises Operating in the U.K.

- **INCREASE IN DEMAND FOR IT OUTSOURCING:** Britain may experience an IT skills shortage, as many of the resources available in U.K. are immigrants. Due to the lack of local technical resources enterprises, such companies may opt to outsource to countries outside Europe (such as India and the Philippines).
- As part of IT data security, the datacentres of public enterprises operating in Europe will be moved to the U.K.
- The U.K.’s exit from the EU is expected to reduce the value of sterling, so suppliers might consider new contracts and agreements with enterprises.

Increase in Cost for Setting New Delivery Centres

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IMPACT AREA: Suppliers of IT Services Outsourcing

- Visa and immigration-related costs are expected to increase for suppliers operating in Europe and with centres in the U.K. This may lead to moving of delivery centres to states in Europe (such as Germany), as service providers will be able to tap into the European labour market.
- Suppliers will reconsider an onshore-offshore resource mix—Global IT outsourcing companies will be assessing the number of staff working (implementation, support) in the U.K. and EU countries and will plan to optimize their resources.
Probable Surge in Demand for Employment Lawyers
With the renegotiation of existing contracts anticipated on the legal horizon in the coming months, there is expected to be an increase in the demand for lawyers in the Employment Practice Area.

**Action Item**
Proactive action is needed from the buyer’s end to understand the possible regulatory changes and the need to work with their law firm roster to assess if they have the required work force and expertise to address the upcoming restructuring of contracts.

Bottlenecks for EU Local Law Practice by Licensed U.K. Lawyers
Licensed U.K. lawyers might be prohibited from dealing with local laws in other EU states, along with withdrawal of access to requalification.

**Action Item**
As the possibility of such a prohibition is becoming more imminent, legal service buyers in the U.K. might need to look at restructuring their law firm roster and adding more EU state law firms (if they operate in EU states) to their existing U.K. law firms.
Probable Surge in Demand for Employment Lawyers

**IMPACT ZONE**: Law Firms Providing Employment as a Practice Area and Legal Service Buyers Operating in the U.K.

- The UK’s decision to leave the EU is likely to have a significant impact on employment law practice. If the U.K. agrees to negotiate a bespoke relationship, the government would be at liberty to depart from EU employment law by repealing and amending legislation and the decisions of the European Court of Justice (ECJ) will not be binding in U.K. courts.
- This change will result in a lot of legal and commercial activity and a surge in demand for employment lawyers in light of expected renegotiations of contracts. One of the main tasks for lawyers in this transitional phase will be to examine current employment contracts and terminate those that are no longer valid.

**Bottlenecks for EU Local Law Practice by Licensed UK Lawyers**

**IMPACT ZONE**: U.K.-based Lawyers, Buyers of Legal Services in EU States

- In the wake of the U.K.’s decision to leave the EU, licensed U.K. lawyers might be prohibited from dealing with local laws in the long run in other EU states, along with the withdrawal of access to requalification.
- Another possible ramification might be that EU states will not allow alternate business structures from the U.K. to practice within their borders in coming years.
Workforce for the Meetings and Events Industry
A potential shortage in the workforce due to changes in immigration policies, thereby affecting the quality of the work.

Action Item
Buyers should ensure that meeting agencies have a sufficient pool of local labour in the U.K. to carry out the work, which was previously performed by migrant workers. Agencies should identify alternate options for buyers to plan their meetings in advance in other European locations.

Impact on the Meetings Market
Many large meetings have been put on hold during the voting phase. Meeting agencies are expected to face some challenges in getting deals from large companies in the U.K. in this time of economic uncertainty.

Action Item
Buyers need to collaborate with Meeting Agencies to identify the best alternatives for their meeting destinations in other European locations.
# Impact on Meeting & Events

## Workforce for the Meetings and Events Industry

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**IMPACT AREA:** Meetings Performance  
- Due to prospective changes in immigration policies, it is expected that there will be shortages of staff, as large number of hospitality industry workers are immigrants.  
- Increases in labour costs and a fall in quality is likely if restrictions are imposed on EU residents entering major cities such as London for work purposes.

## Impact on the Meetings Market

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**IMPACT AREA:** Number of meetings  
- Due to the fall in the pound's exchange rate, the production costs of an event will decrease for international planners organizing meetings and conferences in the U.K.  
- Many leading global companies headquartered in the U.K. are planning to transfer their business to other locations. Hence, meeting agencies will face challenges in pitching their services to those prospective buyers.  
- Many large meetings have been put on hold due to the uncertainty in the economy.
From a CAPEX and MRO perspective, the major impact for buyers from the U.K.’s exit is the expected wage rise in high-skilled manufacturing labour, as well as tariff increases in import duties and raw material prices for accessing other EU markets.

Impact on High-Skilled Labour Workforce Wages: Expected impact of labour cost increase for high-skilled manufacturing labour.

Cost Impact for SMEs; Loss of Above 2 Percent of GDP if FTP fails: Small and medium enterprises which operate in low-cost EU regions will face a cost impact.

Impact of VAT and Duties: Uncertainty in Import VAT rules and customs duty tariffs.

Currency Fluctuation and Tariffs: On a short-term basis, metals prices may be impacted due to currency fluctuations and if tariff-free access to the EU is not approved.
Impact on sourcing

Capex & MRO

Manufacturing Labour

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IMPACT AREA: High-Skilled Labour Workforce Wages

- With BREXIT, the policy is expected to shift from unskilled worker immigration to be more specifically designed for the U.K.’s requirement to attract a pool of high-skilled workers. This is expected to push labour wages in the manufacturing sector for the high-skilled labour force.

Manufacturing Cost Impact

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IMPACT AREA: VAT, Customs Duty Tariffs and Cost Advantage Loss

- The impact of VAT and customs duty tariff rules is expected to have an effect on manufacturing costs.
- Even if Britain renegotiates the Free Trade Partnership (FTP) in the aftermath, the Centre for Economic Performance (CEP) at the London School of Economics has predicted a loss of 2.2 percent of GDP and three to four times higher if this renegotiation of the FTP fails.
- Automotive manufacturing is likely to be impacted, as the major portion of what is produced in the U.K. is exported to EU states.

Commodity Impact – Metals and Oil

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STEEL: There is low risk regarding the short-term continuity of supply for foreign companies buying steel from Britain. If a deal is not negotiated with a focus on tariff-free access to the EU, it will have a negative impact on the health of the steel industry.

OTHER METALS: On a short-term basis, the prices for aluminum, copper, zinc and other industrial metals may be impacted due to currency fluctuations (a declining pound), as prices are closely tracked by movements in dollar value.

OIL: On a short-term scale, oil prices are expected to have a negative impact, but on a long-term basis there will be less impact, because even if the UK’s economic growth suffers a 2 percent drop, Britain’s oil demand would likely be reduced by only 1 percent, or 0.016 percent of global demand, and this will not have a significant impact.
Legal Implications:
The legal implications are difficult to predict at this moment as the laws governing safety and compliance are unlikely to change because of BREXIT.

Competition Law:
BREXIT might lead to the need for dual clearances from the U.K. and EU in the case of mergers and acquisitions and investigating cartel activity. Hence, compliance with both the U.K. and EU competition rules would become more complex and burdensome for businesses.

Contract Terms:
Many shipping contracts (for example, voyage and time charters) provide for trading to certain countries or geographical regions. With BREXIT, existing contracts need to be modified and renewed, differentiating the U.K. and EU.

Insurance and Claims:
BREXIT may restrict the ability of insurers and those buying insurance to shop around and get the best prices and terms for their business.
Impact on sourcing
Ocean Freight Services

Modal Shift in Transportation from Road to Ocean

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**IMPACT AREA:** Buyers Exporting from the U.K.
- As the U.K.'s new policies and limitations might impact EU trade, the U.K. might look to replace Europe with China, the U.S. and the British Commonwealth. Henceforth there will be a modal shift in transportation from road to ocean shipment.
- This opens up the potential for manufacturers to explore new markets and enables comfortable shipping with less cost, due to the vast availability of ocean freight forwarders.

Operating Cost for Ocean Freight Forwarders

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**IMPACT AREA:** Buyers Exporting from the UK and Buyers from EU Countries Exporting to the U.K.
- The operating costs for ocean freight forwarding companies may possibly be impacted after BREXIT if trade tariffs change. This could impact the bottom lines of freight forwarding companies; in scenarios of financial impact, freight forwarders might try to pass on these costs to buyers of these services.
Potential Salary Increase Due to Wage Rates Rise
A mandatory wage rise will impact salaries, which account for close to 60 percent of agency cost structures.

Action Item
Ensure cost absorption clauses with agencies.

Increase in Operational Costs
Suppliers may look at setting up additional hubs to serve EU markets.

Action Item
Watch out for possible increases in overhead costs.

Talent Crunch
Talent crunch in areas such as social media and multimedia content development.

Action Item
Ensure talent retention clauses and be wary of increases in prices.
Impact on
Sourcing Public Relation Services

Increase in Salaries Due to Rise in Wage Rates

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**IMPACT AREA:** Buyers of Agency Services

- Post the exit from the EU, the U.K. is expected to see a rise in wage rates. The rise in wage rates was a major social plank during the referendum.
- Salaries account for close to 60 percent of the supplier cost structure for key agency services such as public relation services.
- A rise in wage rates would directly impact supplier costs, which could in turn lead to a rise in prices.
- Clients need to look at price absorption clauses to shield them from any potential rise in prices.

Increase in Operational Costs

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**IMPACT AREA:** Buyers of Public Relations and Other Agency Services

- Major agencies in areas such as PR have their regional headquarters in London, which is used as a hub to access other EU markets.
- Post the U.K.’s exit from the EU, these agencies will look at setting up additional hubs in EU markets. This will lead to increases in operational costs and costs associated with setting up operations apart from legal and taxation costs.
- In the short run, clients need to watch out for possible increases in overhead costs associated with relocating these agencies.

Talent Crunch

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**IMPACT AREA:** Buyers of Public Relations and Other Agency Services

- Uncertainty regarding the movement of personnel from the EU to the U.K. could impact skill-intensive public relations/marketing areas.
- At present, the U.K. faces talent shortages in certain areas that are made up by personnel from other EU markets.
- There could be a major rise in salaries to ensure the retention of talent, which could impact the prices of key services within marketing.
Impact on sourcing

Trucking Services

Legal Implications:
The legal implications are difficult to predict at this time, as the laws governing safety and compliance are unlikely to change because of BREXIT.

Competition Law:
BREXIT might lead to the need for dual clearances from the U.K. and EU in the case of mergers and acquisitions and investigating cartel activity. Hence, compliance with both the U.K. and EU competition rules would become more complex and burdensome for businesses.

Contract Terms:
Many shipping contracts (e.g., voyage and time charters) provide for trading to certain countries or geographical regions. With BREXIT, existing contracts needs to be modified and renewed, differentiating the U.K. and the EU.

Insurance and Claims:
BREXIT may restrict the ability of insurers and those buying insurance to shop around and get the best prices and terms for their business.
Impact on sourcing

Trucking Services

HIGH IMPACT

CUSTOM CLEARANCE
MARKET IMPACTS
• With BREXIT, the U.K. will lose its free movement principles and border control could possibly increase, leading to higher lead times, uncertainties in inspection, and more paperwork, leading in turn to cost impacts for customs clearance.
• In time-critical industries this may result in companies needing to hold more buffer stocks and re-design their logistics network.

WHAT CAN THE BUYER DO?
• Buyers need to work closely with freight forwarders/trucking companies to reduce waiting times in the border connecting the U.K. and Euro regions.
• Assessing cross-border and custom clearance capabilities is a critical activity while sourcing trucking service providers post-BREXIT.

LABOUR
MARKET IMPACTS
• With the enactment of BREXIT, the U.K. is set to implement new work policies and limitations for migrants.
• As the average age of truck drivers in the U.K. is 55, BREXIT will lead to a driver shortage, which will increase the cost for road transporters by impacting their operational efficiency.
• As a result, companies could end up paying more for their transportation services.

WHAT CAN THE BUYER DO?
• A driver shortage is expected to impact the U.K. for a long time post-BREXIT. Buyers should assess market conditions while sourcing trucking service providers.
• While assessing, buyers also need to look for trucking service providers featuring a strong workforce and operational stability.
LOW IMPACT

REGULATIONS

MARKET IMPACTS

• The U.K. exports 44 percent of its manufactured goods to EU. The new policies and regulations might impact export volumes, and hence there will be an impact on trade with mainland Europe.

• This will impact the business of road transport service providers between the U.K. and EU, thus leading to a high availability of trucks.

• This might help manufacturers get better pricing from trucking service providers.

WHAT CAN THE BUYER DO?

• Buyers must be aware of the various factors in the regulatory environment that will impact trucking services and make corresponding changes to contract terms with various stakeholders involved in the value chain.

MEDIUM IMPACT

FUEL

MARKET IMPACTS

• Fuel prices in the U.K. are expected to rise as sterling weakens.

• As most of the refineries in U.K. are starting to shut down, the import of crude oil has decreased and in turn the finished product—petrol/diesel—is directly imported from EU countries.

• The effect of BREXIT may have an impact on export duties for petrol/diesel procured from EU countries.

WHAT CAN THE BUYER DO?

• Buyers need to negotiate the fuel clauses in their contracts while sourcing trucking service providers.

• Buyers also need to look for best practices to consolidate goods/freight in order to reduce overall fuel costs for shipments.
Impact on Software

Talent Crunch

**IMPACT AREA**: IT Service Providers and Buyers

- Talent crunch in areas such as application development and maintenance, which can have an impact on external consultants’ billing rates.
- U.K. technology startups have a significant workforce from EU member states. The U.K. does not have sufficient math and science graduates to fill positions in application development and engineering.

Privacy and Data Protection

**IMPACT AREA**: SaaS Service Providers

- The U.K. remains one of the key destinations for datacentres serving EU clients. Despite the exit from EU, U.K. companies have to abide by EU General Data Protection Regulations.
- If they do not abide by these regulations, U.K. companies may not be able to process EU data (especially from BFSI clients) within U.K. datacentres, and this could also force U.K. companies to move EU data to their other European datacentres.
Payroll outsourcing as part of the services sector would be impacted by the U.K.'s decision to leave the European Union because of legal uncertainties and dependence on labour.

**Rise in Wages**
With an anticipated restriction on migrant workers, there are higher chances of scarcity in availability of labour. This would cause a further escalation in wages, which are already expected to go higher.

**Action Item**
Buyers should negotiate with their existing payroll providers for achieving better cost-effective deals.

**More Effective and Lenient Regulations**
Regulations will become more effective and processes are likely to be simplified, thus enhancing the favourability of outsourcing non-core functions like payroll. This would lead to an increased demand for payroll services.

**Action Item**
Irrespective of the uncertainties in the legal framework, buyers should enhance their supplier relationship.
Impact on Payroll Outsourcing

Rise in Wages

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**IMPACT AREA:** Buyers of payroll outsourcing

- Post Brexit, the U.K. could impose restrictions on freedom of movement of migrant/foreign labourers, resulting in a shortage of workforce. Thus, there could be an increase in wages, which would lead to an increase in the overall cost of payroll processing.
- Also, the uncertainty in policy changes will result in stagnation of the client base, which could be used as an opportunity for better negotiation.

More Effective and Lenient Regulations

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**IMPACT AREA:** Payroll suppliers and buyers

- Legal experts opine that U.K. national regulations would be 2.5 times more effective than that of the European Union. Also, the possibility of data security laws becoming more lenient could result in a boom in the economic growth of the U.K.
- Buyers should establish or maintain a good working relationship with the payroll suppliers so that they can benefit from the growth in the long run.
Brexit is bound to have an impact on businesses in the U.K. due to anticipated regulatory changes in agency worker rights, working time regulations and laws governing immigration.

Agency Worker Regulations and Immigration Laws
Citizens from the European Union will no longer be automatically able to reside and work in the U.K. Also, the law enforcing equal wages for permanent and temporary labour could be removed.

Action Item
The buyers should audit their workforce to understand the immigration status and also review the employment contract and policies.

Reduced administrative burden
EU law governed employee working hours and holiday rest breaks. The U.K. government is expected to make changes such that administrative burden could be reduced.

Action Item
Record keeping and administrative efforts can be downsized.
Impact on Temporary Labour

Agency Worker Regulations and Immigration Laws

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**IMAPCT ZONE:** Buyers

- The anticipated restrictions on workforce mobility would lead to a loss of talented workforce and in turn create a shortage.
- Blue-collar labour shortage could impact industries such as manufacturing, retail, agriculture, mining and construction.
- The laws governing agency workers are expected to be more pro business and the need to pay same wages for both temporary and permanent labour post 12 weeks of employment would be revoked or at the least redesigned.

Reduced Administrative Burden

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<thead>
<tr>
<th>IMPACT ZONE</th>
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<tbody>
<tr>
<td>Cost</td>
<td>Buyer</td>
<td>Long-Term</td>
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**IMAPCT ZONE:** Buyers

- The cost of labour administration for the buyers is expected to go down, as it would not be required to keep the employee representatives informed about the agency workers.
- More ease for employers to make changes to terms and conditions of employment after a transfer of ownership has taken place is expected due to amendments in Transfer of Undertakings (Protection of Employment).
Potential Salary Increases Due to Wage Rates Rise
A mandatory wage rise will impact salaries, which account for close to 55–60 percent of agency cost structures.

Action Item
Ensure cost absorption clauses with agencies.

Increase in Operational Costs
Suppliers may look at setting up additional hubs to serve EU markets.

Action Item
Watch out for possible increases in overhead costs.

Talent Crunch
Talent crunch in areas such as account management and creative executives.

Action Item
Ensure talent retention clauses and be wary of increases in prices.
# Impact on sourcing

## Creative Services

### Increase in Salaries Due to Rise in Wage Rates

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<thead>
<tr>
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<td>Long-Term</td>
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**IMPACT AREA:** Buyers of Agency Services
- Post the exit from the EU, the U.K. is expected to see a rise in wage rates. The rise in wage rates was a major social plank during the referendum.
- Salaries account for close to 55–60 percent of supplier cost structure for key agency services such as creative services.
- A rise in wage rates would directly impact supplier costs, which could in turn lead to a rise in prices.
- Clients need to look at price absorption clauses to shield them from any potential rise in prices.

### Increase in Operational Costs

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<tr>
<th>IMPACT ZONE</th>
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<td>Cost</td>
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<td>Supplier</td>
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</table>

**IMPACT AREA:** Buyers of Creative and Other Agency Services
- Major agencies in areas such as media, creative and PR have their regional headquarters in London, which is used as a hub to access other EU markets.
- Post the U.K.’s exit from the EU, these agencies will look at setting up additional hubs in EU markets. This will lead to increases in operational costs and costs associated with setting up operations apart from legal and taxation costs.
- In the short run, clients need to watch out for possible increases in overhead costs associated with relocating these agencies.

### Talent Crunch

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<td>Performance</td>
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</table>

**IMPACT AREA:** Buyers of Creative and Other Agency Services
- Uncertainty regarding the movement of personnel from the EU to the U.K. could impact skill-intensive creative/marketing areas.
- At present, the U.K. faces talent shortages in certain areas that are made up by personnel from other EU markets.
- There could be a major rise in salaries to ensure the retention of talent, which could impact the prices of key services within marketing.
# Impact on Engineering and Design Services

## Rise in Demand for Skilled Labour

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**IMPACT AREA:** Entire phase of Engineering and Project Management
- Labour costs are expected to increase, but after a two-year window
- Fifteen percent of construction labour in the U.K. is from the EU, and this is especially high in London and the South East

## Investment Crunch

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</table>

**IMPACT AREA:** Overall Engineering and Architectural Demand in the region
- Affects industrial and financial construction—contributing to 15–20 percent of overall construction spend
- FDI investment is expected to contract
SHORT TERM IMPACT

LABOUR

IMMIGRATION: Ahead of immigration restriction, immigration would increase. Therefore labour shortage is not immediate

WAGE HIKE: Contracts are expected to be renegotiated to shield from possible labour wage increases

INVESTMENTS

POUND DECLINE FURTHER: The pound is expected to fall further in the next year, in addition to the current decline of 7 percent. This can be attributed to the lower investments, high account deficit (7 percent of GDP) and possible quantitative easing to support economic growth

Commercial investments and housing projects are likely to continue in the short term

LONG TERM IMPACT

LABOUR

HIGH WAGE GROWTH: Wage growth will be high, pushing construction cost inflation.

INVESTMENTS

Commercial and industrial clients will be cautious in their investments

LOW FDI IN HOUSING: The housing sector will witness a low FDI due to volatile economic indicators

DIVERSION OF FUND: In the infrastructure sector, depending on the final agreements, the previously allocated budget for the EU, of $9 billion, will be diverted to infrastructure spend
Mitigating Risks

HIGH IMPACT

LABOUR
- Out of the 90,000 architects in the U.K., only about 8 percent are foreign nationals.
- Enrolment in architecture has increased due to a larger number of domestic students in the current year.

BUYER RISK MITIGATION:
- Assessing contractors’ backlog and pipeline of projects to secure labour supply.
- Transferring labour wage risk to contractors through fixed prices.
- Adopting standardisation of design and modular construction to decrease labour dependency.
- Engaging in collaborative training programmes in case of strong project pipeline.
- Outsourcing engineering services to low-cost countries.

MEDIUM IMPACT

INVESTMENT RESTRICTION
- Twenty percent of architecture revenues in the U.K. come from the rest of Europe.
- Depending on the restriction of movement of labour, the firms in the U.K. might have to set up offices in continental Europe.
- This will depend on the kind of exit made by the U.K.

BUYER RISK MITIGATION:
- Transfer risk to developers and asset managers—risk in energy improvements can be passed on to developers. Volatility in rental prices can be passed on to professional asset managers.
- Fix rates in industrial, retail and warehouse sub-sectors, with an option to renegotiate fixed reasonable prices if Britain remains part of the EU.
Increase in Fleet Management Costs
The U.K. pound is falling against the U.S. dollar, which will result in higher fuel prices and lead to higher fleet management costs.

Action Item
Companies can explore the use of fuel cards with higher discounts to reduce the impact.

Increase in Fleet Leasing Cost
Imported vehicles might cost more due to the changes in cross-border taxation. The residual value of fleet vehicles is expected to decrease due to lower-cross border demand.

Action Item
Buyers can focus on acquiring U.K.-manufactured vehicles and consolidate the number of OEM manufacturers they engage with.
## Increase in Fuel Costs

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**IMPACT AREA:** Fleet Management
- Despite the drop in crude oil prices, fuel prices are expected to go up, driven by the devaluation of the pound.
- Analysts predict that a 20 percent fall in the value of the pound would increase the price of filling up an average car by at least 2 pounds.
- As fuel constitutes 30–40 percent of fleet operating costs, changes in fuel price will have a direct impact on fleet management costs.

## Increase in Fleet Leasing Costs

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**IMPACT AREA:** Fleet Leasing
- Lease prices are expected to go up due to the higher Manufacture Suggested Retail Price (MSRP) of imported vehicles.
- Used vehicle prices will have a declining trend due to lower cross-border demand.
- As a result, the residual value of fleet vehicles will decrease, which will in turn increase the lease cost of the vehicles.
## Rise in Demand for Labour

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**IMPACT AREA:** Entire phase of Construction  
- Labour costs are expected to increase, but after a two-year window  
- Fifteen percent of construction labour in the U.K. is from the EU, and this is especially high in London and the South East

## Uncertainty in Availability/Cost of Construction Material

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</table>

**IMPACT AREA:** Entire phase apart from Engineering  
- VAT of 20 percent and import duty of 5–7 percent depending on the material—Based on WTO Model  
- The U.K. exports 63 percent of its total building materials exports to the EU and in return imports 60 percent of total construction building materials from the EU

## Investment Crunch

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</table>

**IMPACT AREA:** Service Providers’ Order Backlog  
- Impacts industrial and financial construction—contributing to 15–20 percent of overall construction spend  
- FDI investment is expected to contract
**Impact on Construction Services**

### SHORT-TERM IMPACT

**LABOUR**
- **IMMIGRATION**: Ahead of immigration restriction, immigration would increase. Therefore labour short age is not immediate
- **WAGE HIKE**: Contracts are expected to be renegotiated to shield from possible labour wage increases

**MATERIAL**
- **IMPACT OF DECLINING POUND**: The declining pound will directly impact construction costs since bricks, ceramic tiles and bathroom and kitchen components are imported from Europe
- **PRICES WILL REMAIN STABLE OR EVEN DECLINE MARGINALLY** as imports will increase prior to the referendum as distributors increase inventory

**INVESTMENTS**
- **POUND DECLINE FURTHER**: The pound is expected to fall further in the next year, in addition to the current decline of 7 percent. This can be attributed to the lower investments, high account deficit (7 percent of GDP) and possible quantitative easing to support economic growth.
- Commercial investments and housing projects are likely to continue in the short term

### LONG-TERM IMPACT

**LABOUR**
- **HIGH WAGE GROWTH**: Wage growth will be high pushing construction cost inflation

**MATERIAL**
- **STEEL PRICE DECLINE**: Prices of steel are likely to decrease if import duties on Chinese steel are reduced

**INVESTMENTS**
- Commercial and industrial clients will be cautious in their investments
- **LOW FDI IN HOUSING**: The housing sector will witness low FDI due to volatile economic indicators
- **DIVERSION OF FUNDS**: In the infrastructure sector, depending on the final agreements, a previously allocated budget of $9 billion for the EU will be diverted to infrastructure spend for the U.K.
Impact on Construction Services

HIGH IMPACT

LABOUR
- High probability of strict immigration rules. Severe shortage and cost escalation post 2018
- Demand will increase after two years as immigration policies are tightened. Until 2018, prices will remain stable with minor declines as overall demand is impacted

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<thead>
<tr>
<th>Component</th>
<th>YoY Forecast*</th>
<th>Percent Share**</th>
</tr>
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<tbody>
<tr>
<td>SL</td>
<td>5–10 percent</td>
<td>15–20 percent</td>
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<tr>
<td>UL</td>
<td>3–5 percent</td>
<td>10–15 percent</td>
</tr>
<tr>
<td>B, C, S</td>
<td>10–15 percent</td>
<td>10–12 percent</td>
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</tbody>
</table>

MATERIAL-STEEL & CEMENT
- Domestically produced, hence domestic demand has direct influence on price
- Import tariffs are likely to be scrapped hence more Chinese imports. Demand in the short term remains subdued
- Construction demand remains subdued

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<tr>
<th>Component</th>
<th>YoY Forecast*</th>
<th>Percent Share**</th>
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<tbody>
<tr>
<td>Steel</td>
<td>(5–8 percent)</td>
<td>20–25 percent</td>
</tr>
<tr>
<td>Cement</td>
<td>5–7 percent</td>
<td>20–25 percent</td>
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</tbody>
</table>

MEDIUM IMPACT

MATERIAL-OTHERS
- The reason for increase will be VAT, import/export duties and clearance work
- Prices will marginally increase due to delays at ports—if planned, these costs can be avoided

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<thead>
<tr>
<th>Component</th>
<th>YoY Forecast*</th>
<th>Percent Share**</th>
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<tbody>
<tr>
<td>Other Building Materials</td>
<td>20–25 percent</td>
<td>5–10 percent</td>
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</table>
Mitigating Risks

HIGH IMPACT

LABOUR
• Assessing contractors’ backlog and pipeline of projects to secure labour supply
• Transferring labour wage risk to contractors through fixed prices
• Adopting standardisation of design and modular construction to decrease labour dependency.
• Engaging in collaborative training programs in case of strong project pipeline
• Outsourcing engineering services to low-cost countries

MATERIAL
• Steel prices will remain unchanged due to the referendum
• Negotiate on fabrication costs to achieve best possible prices
• Enter long-term agreement with steel fabricators who source in bulk and have capability to pass on benefits to end users
• Imported building material prices are unlikely to remain unchanged in the short term and in the long term, prices might increase if compliance with WTO rules is mandatory
• Regulation related to manufacturing of construction material is unlikely to change in the medium term, as it will take a few years for the U.K. to diversify its exports to other global markets

MEDIUM IMPACT

INVESTMENTS
• Transfer Risk to Developers and Asset Managers—risk in energy improvements, can be passed on to developers. Volatility in rental prices can be passed on to professional asset managers
• Fix rates in industrial, retail and warehouse sub-sectors, with an option to renegotiate fixed reasonable prices if Britain remains part of the EU

Glossary

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Expansion</th>
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<tbody>
<tr>
<td>B, C, S</td>
<td>Bricklayers, Carpenters and Surveyors</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>SL</td>
<td>Skilled Labour</td>
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<tr>
<td>UL</td>
<td>Un-Skilled Labour</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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