

BREXIT and its impact on the automotive industry



WITH ANOTHER BREXIT DEADLINE RAPIDLY APPROACHING, BARRY EDNEY GIVES US AN INSIGHT INTO THE POSSIBLE IMPACTS ON THE COLLISION REPAIR INDUSTRY IN THE UK AND ASKS THE QUESTION: WHAT WILL REALLY HAPPEN WHEN THE UK LEAVES THE EU?

Firstly, let me say: if anybody figures that out, please do let me know as that's the 64-million-dollar question!

In all seriousness, there is so much uncertainty around Brexit that it's hard for any business to plan and mitigate the potential risks. Do they plan for hard borders and therefore slow customs clearance on goods coming into the country? Will duties apply, and if so, will they apply to just finished goods, or parts and sub-assemblies as well? What about skilled workforce from Europe? The questions are wide and varied.

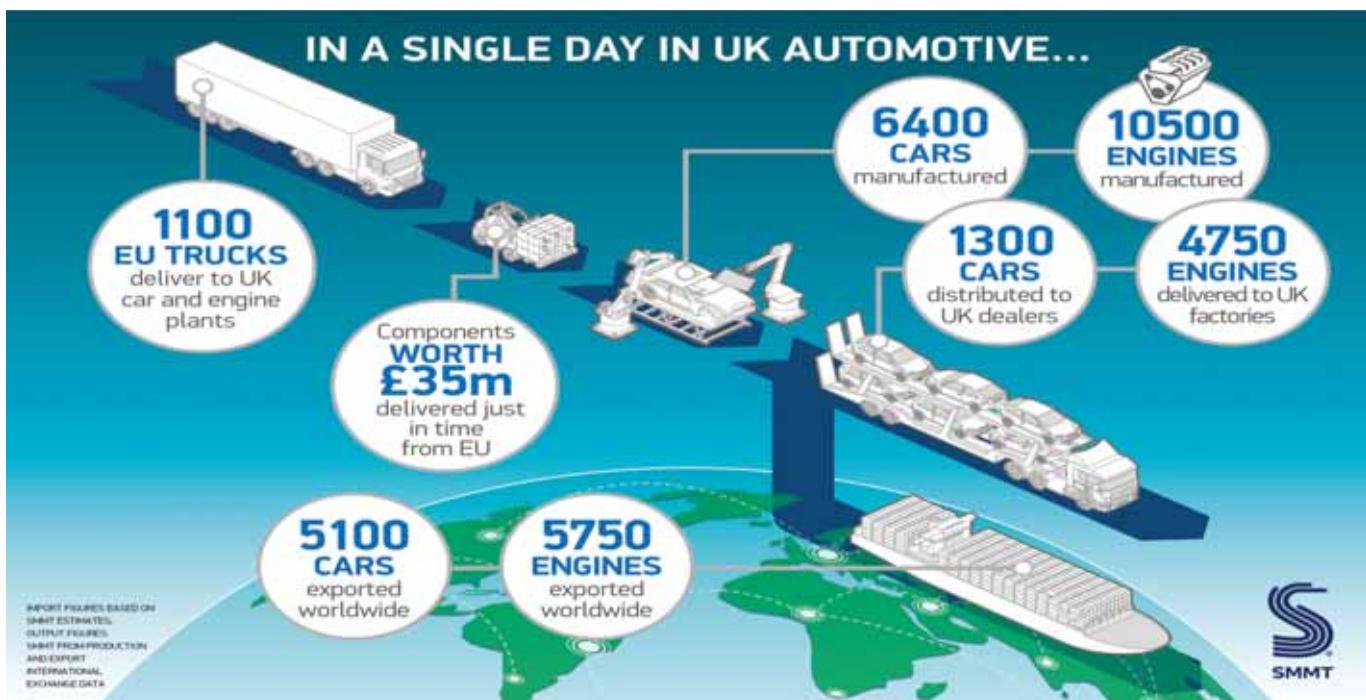
At the moment, the borders between the UK and Europe are no more than a line on the map and, in reality, are no different than the state

borders within Australia. Goods, people and services can move freely back and forth, and movement is limited only by distance and logistics. As a result, over the past 40 years, we have seen the auto industry, among others, plan logistics accordingly and many UK businesses are served directly from mainland Europe rather than from local facilities. Of course, in Ireland, where the UK has its only land border with the EU, imposition of a fixed border would be extremely disruptive. Just imagine border controls at Albury-Wodonga or Tweed Heads-Coolangatta and then you get an idea of the potential disruption to local business and community activity and begin to understand people's concerns.

The overall challenge

To give you some insight into the scale of the challenge facing the UK auto industry, the Society of Motor Manufacturers and Traders (SMMT) illustration shows the UK motor industry's daily cross-border trade with the EU.

With a large percentage of parts, especially genuine parts manufactured or distributed from within Europe, parts availability is seen as the biggest challenge to the collision repair industry and one that will have the biggest impact. One way to deal with this is to increase stock holding of parts in UK warehouses but, as we all know, inventory costs money, and I will give you one guess who will end





up paying for it. Even if an agreed exit deal leads to seamless clearance at the docks, will there be import duties and a corresponding price increase? Either way, there are potential implications for the cost and availability of parts and the knock-on effect of repair cost and delays to repairs. This is seen as the major risk to the repair industry.

To better understand how the UK collision repair industry is trying to prepare for and manage these potential scenarios, I recently caught up with Chris Weeks, who is Director of the National Body Repairers Association (NBRA), the UK's largest representative body for collision repairers.

The NBRA brought together several industry members, including repairers, insurers and suppliers, to debate how a worst-case scenario might affect the collision repair industry and to ensure all stakeholders have a clear idea of the potential risks such an event would present.

One of the key outputs was a summary of the expected impact of a "worst-case scenario", with delays at the borders and ports, assuming current repair processes and work provider agreements were unchanged:

Specific challenges

Parts availability is seen as having the biggest impact as the knock-on effects would be significant. In the early days, work in progress would be delayed as parts on back order would not arrive or would be significantly delayed. Body shops would start to fill with non-driveables as repairers would not want to start a repair without all the

required parts on hand. This in turn could lead to more repair vs replace being required with the resulting reduction in completion times.

Mobility is also likely to be significantly impacted. In the UK, free courtesy cars are a major cost for repairers as they are mandated under many of the insurers' repairer agreements. While courtesy cars are not required for all repair customers, the number is significant and extended repair times, leading to longer loan periods, would lead to both a shortage of vehicles and additional costs for the repairer. With non-driveable cars not being started, drivers would be stuck without transport or would be claiming rental cars from insurers with the knock-on impact on their bottom line and consequently on customers' premiums.

Contract terms would be affected as repairers potentially fail key deliverables in SLAs, such as Key2Key times, collection times and satisfaction scores. In normal circumstances, this would result in reduced terms for new work or even penalty fines unless insurers were prepared to allow some exceptions due to the unusual circumstances. There has been no official response from the insurance industry body, but a leading motor insurer who attended in the NBRA workshop said that there is a willingness within his company to support repairers should this difficult situation arise.

Parts prices are also likely to be impacted by the imposition of import duties or additional distribution costs. These will inevitably be passed on in the cost of repairs and eventually onto the driver through increased premium costs.



Chris Weeks, Director NBRA.

Cash and solvency are seen as the biggest risk for repairers. There will be a reduced flow of cash into repairers as the volume of repairs being invoiced would start to decrease as some vehicles just can't be completed. Work in progress would seriously decline, with technicians likely standing idle whilst still on the payroll. Repairers that sell their debt would see an immediate impact on their revenues and as cash reserves start to run down, many businesses will be in serious trouble. One of the attendees at the NBRA workshop who runs a large automotive group believes that in this worst-case scenario, up to 1,000 UK repairers could be on the brink of closing after only two to three weeks of reduced cash flow. Based on the most recent estimates, that represents around 35



5 Minutes with ...



Adam Gablonski
Capricorn Society

When did you join the industry? 1988

What was your first job in the industry?
Apprentice Mechanic

What do you do now?
Area Manager in North Queensland

What do you like about the industry?
The people and the evolving nature of the industry

What don't you like about the industry?
As a whole we are not bringing enough Apprentices through the system.

What music do you like?
Old school (Beach Boys, Billy Joel etc)

Your Favourite Artist?
Billy Joel

Your favourite food?
Seafood and lots of it

Your favourite drink?
Beer during the day - a good red a night.

Your hobbies?
Fishing and camping

Who in the world would you most like to meet?
My Grandmother that passed away before I was born. I reckon she would have had some good stories on my Mum.



percent of UK repairers.

These discussions and "what-if" scenario evaluations led everyone to realise just how fragile the repair industry is and highlighted the need for all stakeholders in the industry to work together. The scenario planning/risk assessment from this NBRA workshop will be invaluable to repairers in planning, as many may well be unaware of the potential risk and pitfalls a potential worst-case situation would present.

Perhaps this leads to a question for body shop owners across Australia: how confident are you that your business can withstand a significant and sudden economic shock?

Possible upsides

Of course, the best outcome for everyone is unrestricted movement of vehicles and vehicle parts with no import duties, as we have now. In a worst-case scenario, there may be some winners such as non-genuine parts suppliers who are sourcing from outside the EU and those repairers who would like to return to the good old days of repair instead of replace, with the end of the KPIs associated with a short repair process. These, I think, will be in a minority.

Summary

Recently it was reported in a quarterly survey by the British Chambers of Commerce (BCC), that UK economic conditions remain "stagnant" due to the uncertainty over Brexit. Certainly, the businesses (inside and outside our industry) to whom I have spoken are taking a "wait and see" approach and I don't see any other major changes.

When you consider that on the same day this survey data was released, Reuters was reporting that, based on the Purchasing Managers Index (PMI), Eurozone factory activity contracted for the fifth consecutive month, it begs the question: is the stagnation in the UK business environment due to Brexit or not? I'm not so sure we will ever be able to answer that question with certainty, and in the years to come when we look back and try to measure the true impact of Brexit, there will continue to



be as many opinions as there are commentators and experts.

While the scenarios I have described are the worst of all possible cases, it does illustrate the likely challenges that may arise and, when you look at the potential risk to repairers, highlights the precarious situation in which many independent repairers find themselves. With ongoing uncertainty around just what sort of Brexit the UK will achieve, everyone must plan for the worst and hope for the best.

In conclusion, insurers and vendors are sympathetic to the challenges the repairers face but, like other businesses, until they know just what problems the industry has to deal with, they are not able to offer any tangible support.

We know that, despite the sensationalism in the popular press and politicians playing up the dangers, civil servants, businesses, and supply chain experts from many industries are working at ways to manage and minimise the risks. However, until the Brexit plan is signed and sealed, at this stage by 31 October, the uncertainty remains and it's this uncertainty that is the key reason why so many businesses are concerned. Common sense tells us that there is a deal to be done by both sides but, as we know, politics often gets in the way of common sense!



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