Brexit Industry Insights

Consumer Products and Retail

With the UK’s default to leave the EU without a deal, there are a number of steps businesses in the consumer products and retail sector can take to prepare. This sector is faced with simultaneously navigating the impact of e-commerce and digital sales on traditional business models, whilst mitigating the impacts of Brexit – including on supply chain, movement of people and regulatory compliance. The risk of the UK leaving the EU without a deal has increased, and the time to act is now. The winners will be those in the sector prepared for change and alive to the opportunities.

The consumer products and retail sector comprises a wide variety of businesses and sub-sectors, including textiles, apparel, furniture, jewellery, toys and sports equipment, and is primarily concerned with selling goods directly to customers. The sector contributes 6.3% to UK gross value add (GVA) and employs 3.1 million individuals. The consumer products and retail sector is facing challenges as margins are being squeezed between weakening demand and rising costs. The industry is undergoing a transformation, including through the rise of e-commerce, platform business models and direct to consumer routes to market, and significant structural change. Competition is also increasing; driven, in part, by the internet. Brexit will continue to contribute to increased uncertainty and reduced consumer confidence, posing ongoing challenges for business.

Some of the key implications for businesses operating in the sector are:

**Supply Chain**

In our globalised world, businesses have long and complex supply chains, with inputs and outputs frequently crossing borders. Brexit has the potential to significantly disrupt the supply of goods to the UK, particularly where those goods are imported from the EU. In a no-deal scenario there could be disruption on short straits (i.e. cross Channel routes from the South East of England) for a period of six months. Businesses based in the EU will also face disruption where they import products from the UK, which could particularly affect businesses in the sector with distribution centres in countries such as the Netherlands. In preparation for a potential no-deal scenario on 31 October, a number of businesses in the sector are reviewing opportunities for collaboration and risk-sharing with suppliers and customers, for example avoiding running large scale promotions at the start of November. Some companies are diversifying suppliers and supply routes, and exploring supplier direct deliveries to drive value within the supply network – changes which are already taking place, but Brexit adds a further impetus to trial these.
Limited visibility of suppliers, including suppliers of components, materials, spare parts and packaging; along with service providers such as logistics companies and outsourced facilities management providers, could cause hidden risks and costs.

Additional tariffs and the costs associated with complying with new customs procedures, which businesses may not be able to pass on to customers. The removal of VAT Low Value Consignment Relief on parcels from overseas businesses in a no-deal scenario will mean changes to how some businesses account for VAT.

Systems upgrades and staff training may be needed as part of longer term improvements to the compliance process to manage import/export declarations.

Duty rates and market access arrangements between the UK and third countries could also change by virtue of the UK losing access to the benefits of Free Trade Agreements (FTAs) which it currently has because of its EU membership. UK negotiations with third countries are ongoing. In addition, the UK has confirmed in a no-deal scenario it will continue with a similar scheme to the EU’s Generalised System of Preferences (GSP) which allows developing countries to receive preferential access to UK markets. GSP is commonly used in the textile sector.

The impact of potential delays and longer lead times for goods to move across the border. In particular this could impact perishable goods and just-in-time delivery models. Many businesses stockpiled in March as a result, but repeating this in October is likely to prove more challenging given the seasonal peak from Black Friday through Cyber Monday to the Christmas season, when warehouse space is already severely limited.

People

Free movement of workers will end once the UK exits the EU. Existing EU workers will be required to apply using the EU Settlement Scheme while new entrants will likely need a work permit to work and reside in the UK. The picture is mixed in the EU with not all EU member states having to date introduced legislation to safeguard existing UK nationals and to facilitate newcomers. According to the British Retail Consortium, 170,000 EU nationals work across the retail industry, constituting one third of the permanent workforce in the food and drink supply chain. With restrictions set to be introduced on low-skilled EU workers, many retail firms will suffer; particularly in retaining and recruiting workers in packaging and processing, which could also disrupt supply chains and consumer goods. London, where retailers are often reliant on tourist business in their flagship stores and on employing EU nationals with multiple language skills, will be particularly vulnerable.

Employers will need to ensure they are consistently engaging with and encouraging their existing workforce to certify their residency status while also reviewing their recruitment strategy for critical roles.

Regulation

Businesses may need to comply with both UK and EU regulation. Some UK businesses may need to obtain EU authorisations to continue to supply the EU market or appoint new EU-based distributors to help them meet these obligations. Some of the regulatory areas that could be impacted include:

- Dual use of EU and UK notified bodies to prove conformity with respective product standards.
- Dual EU and UK registered addresses to meet regulatory requirements.
- Labelling updates (e.g. to include new addresses as well as a new UK replacement for the CE mark).
- The need for UK exports of ‘non-harmonised’ goods to comply with each individual EU Member State regulation (e.g. agri-food, furniture, certain clothing and bicycles, among others).
- Additional licences for goods subject to export controls.
- Data protection - personal data flows are regulated by the EU. The European Commission (EC) has the power to determine whether a country outside of the EU offers an adequate level of data protection. Absent an adequacy decision from the EU or some form of separate legal agreement between the UK and the EU, businesses will need to ensure appropriate legal safeguards (e.g. standard contractual clauses and for intra-group transfers, binding corporate rules) are in place to facilitate cross-border flows of personal data.

The UK leads the EU on e-commerce. UK e-commerce sales were £586bn in 2017, up from £505bn the year before.

Brexit will impact e-commerce in a number of ways which could be felt quickly and directly. Customer behaviour is expected to shift to adjust to increased transportation costs, customs duties and delivery times.

This could also complicate returns if those same products need to re-cross the border between the UK and EU27, potentially creating additional duty and VAT costs.

Foreign exchange fluctuations provide an additional challenge for direct e-commerce sales as customers may seek to arbitrage against increased costs.

Data flows and continued compliance with the General Data Protection Regulation when dealing with customers could pose an issue if the UK is not granted an adequacy decision by the European Commission.

What can businesses do to prepare?

- Start planning now to ramp up your operational response capability given the October timing and seasonal demands on the consumer products and retail sector; take steps to manage disruption as and when it occurs, including accelerating imports/shipments, identifying warehousing space as well as alternative suppliers and/or markets.

- Make sure you know how to complete and submit the necessary customs declaration procedures and forms for both imports and exports, and have applied for an Economic Operators Registration and Identification (EORI) number if required.

- Conduct a trade continuity and market access review to understand your exposure to third country trade deals.

- Undertake a regulatory review to understand what any new labelling changes and product standards could mean for your products given where they are produced and sold.

- Review commercial contracts to understand and assess Brexit risk and identify impacted terms and proposed response e.g. the creation of a precedent bank of terms for future re-negotiation, immediate re-negotiation or re-papering.

- Continuously communicate with your EU workforce to encourage status certification as early as possible. Establish a process that monitors member state changes to immigration and social security policy which could impact UK workers in the EU.

- Manage all key stakeholders to identify commitments and expectations. Engage with trade bodies and regulators on preparations.

- Develop clear communication plans with customers and suppliers.

- Keep up to date on UK and EU government, European Commission and regulator announcements in the run up to 31 October and beyond to stay up to date on policy changes.

- Develop a strategy for government engagement on the issues that matter most to the business in order to influence future policy.

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5. https://www.ons.gov.uk/businessindustryandtrade/itandinternetindustry/bulletins/eecommerceandictactivity/2017
How can Deloitte help?

Deloitte has been supporting multiple businesses across a range of industries to understand the implications of, and prepare for, the UK's withdrawal from the EU. We have supported many clients with their Brexit planning. Our teams combine Brexit insights, industry knowledge and technical expertise to support our clients with their Brexit readiness planning – from risk assessment to applying the lessons learned to optimise for the future trading environment.

For further information please contact Deloitte Brexit Support at brexitsupport@deloitte.co.uk

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### Further reading

**UK No-deal Technical Notices:**
- UK Product Safety and Metrology  
  Guidance in a ‘no deal’ scenario  
- Consumer rights if there’s no Brexit deal  
- Trademarks and designs if there’s no Brexit deal  
- The consumer goods sector and preparing for Brexit  
- The retail sector and preparing for Brexit

**UK Business Preparation Tool:**
- Prepare your business or organisation for Brexit

**European Commission Brexit Preparedness:**
- Data protection  
- Company law  
- Consumer protection and passenger rights

**Law Society**
- Brexit no deal - consumer law

This no-deal guidance is not exhaustive. Companies should routinely review the latest official updates and technical guidance as and when they are published by the UK, EU, and individual EU member states.