Brexit: Potential Influence On The Automotive Industry

Introduction to the issue

The following assignment deals with the topic of Brexit and how it potentially influences the automotive industry with a focus on the company BMW. This international company is confronted with many influences and difficulties which will be analyzed and confronted with possible strategies from an international manager.

Brexit is the shortened form for “ exit”, referring to the UK’s decision in a referendum in 2016 to exit the European Union. Almost 52% agreed to this, but the exit didn’t happen straight away. It was due to take place on 29 March 2019, but with the EU agreeing to extend the deadline for Britain’s withdrawal from the bloc, the government remains in crisis, if with a bit more time to find a way forward with to new possible dates, 12 April and 22 May. With the EU being a bloc of 28 countries, Germany and its companies is facing even more complex and contradictory consequences because of the economic effects of Brexit. They export to the UK, import goods or products from there or have branches or subsidiaries, and should deal early with the consequences of the Brexit economic effects. Such changes in interest and exchange rates, custom duties introduced or rising in inflation in the UK lead to changes in demand or to rising manufacturing costs for German products for example (Steinhaus, Guttzeit & Wolf, 2017). The UK automotive sector goes hand-in-hand with the development of the EU single market, which means that access to the single market is crucial for UK business (Leeson, 2019). By the effects of a Brexit, the German automotive industry is particularly affected (Steinhaus, Guttzeit & Wolf, 2017).

Discussion of the issue in more detail

In principle, the German automotive industry is the industry with the highest exports, with an export value of 226.3 billion euros in motor vehicles and components in 2015. 28.8 billion euros in the export of motor vehicles and land vehicles make Great Britain the second most important trading partner after the USA. According to the German Association of the Automotive Industry, almost one-fifth of the cars produced in Germany went to Great Britain in 2016, with around 800,000 new vehicles (VDA, 2017).

The Brexit was already evident at the end of last year. In the second half of 2016 exports of motor vehicles and their components to the UK fell by 13,9% compared with the second half of 2015. In the fourth quarter of 2016, the decline was as much as 17,7% year-on-year. This may be partly due to the depreciation of pound, which has made German automotive parts relatively more expensive in the UK (Berthold & Busch, 2017).

The decision of the UK to leave the EU has generated a high degree of uncertain and anxious manufactures in the UK, the EU and especially in Germany. The automotive industry has been particularly pronounced in this regard, with companies such as Jaguar Land Rover, BMW and Honda (Leeson, 2019).

In this following assignment, the issue of the Brexit facing the German company BMW will be

identified with known and also potential influences. Furthermore, strategies will be developed on how to manage this issue of importance.

In case of a hard Brexit, the UK leaving the EU's customs union, a report by the Cologne-based German Economic Institute (IW) German firms would have to pay more than three billion euros in customs tax and the UK-EU trade could be halved (Huether, Diermeier, Jung & Bassilakis, 2018). It is an agreement, which allows the countries to set common external tariffs and the single market, which allows free act of moving for goods, services, money and people in the EU and is considered to cost about 15 billion euros of annual tariffs in total on both sides (Loxton, 2018).

Especially the auto industry is highly disclosed to risks from Brexit (GJ, 2017). It is one of the leading employers in the country and is responsible for 856,000 jobs. BMW employs about 8,000 people in the UK (O'Caroll & Topham, 2018). BMW could be forced to shut some of its four UK factories, putting all these jobs at risk. They already announced plans to shut its MINI factory for a month after the UK's official departure from the EU, to minimize the impact of a no-deal Brexit (Davies, 2018). MINI is BMW's subsidiary in Britain and makes their cars in Cowley near Oxford. In the case of a no-deal, more than 4,500 jobs and 100 years of car marking are exposed to a chance of loss and damage (Davies & Jolly, 2019).

In addition to that, key findings from the report of a Brexit Briefing Paper say that this scenario could also cause an increased cost expansion of 1.9 billion euros for automotive manufacturers in the UK, which means with the Pound falling 10% against the Euro, they are forced to increase their costs by 15% (Dawkins, 2018).

The Munich-based company is not the only German car industry that is facing numerous challenges, including static sales in Europe and the US, falling sales in China, stricter emissions rules and on top the prospect of the UK leaving the EU without a deal as a major additional issue. Next to costs rising in several areas, especially with the stricter CO2 legislation, there are currency movements and increasing costs for raw materials. With talking about jobs in the car industry on side that are on the line, there are also 100,000 jobs in Germany at risk. Dingolfing-Landau, one of the largest German factories of BMW, and Wolfsburg, as the home of the Volkswagen group, could be the worst affected areas. Harald Krueger, BMW's chief executive, already noticed that "without an orderly and practical solution for business" (Krueger, as cited in McGrath, 2019) the Brexit could have a huge impact on the business of the German automotive industry. The costs can rise faster than expected and mean enormous quantities for the company, jobs and factories of BMW and furthermore their subsidiary MINI can be put at risk and forced to shut down.

Advantages

However, there are many ways to see this development with advantages and in which the industry can play to its strengths. Possible options could mean that the company could break free of Brussels regulation in order to gradually become a leader in new technologies such as hydrogen, electric and driverless cars which can, in order, for example, to be able to cover the costs that are incurring. In addition, the company, especially BMW, could focus even more on selling and producing upmarket vehicles on a more global way, which means to the attempt to touchless developed or globalized cities (Lynn, 2017).

Conclusion and recommended strategy

According to these possibilities, however, it is more important to have a prepared strategy to deal with and manage the risks and difficulties mentioned before. As an international manager, you should be aware that this kind of uncertainty is not good for business and cannot be a momentary state.

There is no model for how companies should change in reaction to Brexit because the information given is limited and still inconsistent. That does not mean that companies should not start the work required to come up with a plan. It is always good to think through the ways your business could change and can get changed. First of all, BMW has to understand the primary impact of Brexit on their business in terms of the key aspects and their value chain, for example, the supply chain and the suppliers, logistics, stakeholders and customers. Next to that foundation a team is needed that is fully responsible for a coming strategic plan. This team can be a cross-functional group for whom this is a specific side project. They need to work together as a managed service to have an improved understanding of their supply chain and to help them as automotive manufacturers to improve (McNamee & Kokkinogeni, 2018).

Especially good undertaking information of the management policies helps them to set up governance processes that will help them improve existing and new coming contracts. Being prepared also means getting control over the act of acquiring, management and retention. With the Brexit coming up specifically BMW exporting and importing all over the world, the communication and collaboration between automotive manufacturers, partners and customers can be more essential than usual. Digital technology, for example, can be used as a tool to make sure reactions and responses can occur quickly (Leeson, 2019). Additionally, the concentration on premium mobility as their strategy to meet the future should be retained with their focus on e-mobility, autonomous driving and mobility services to put a clear advantage against economic issues and its rivals.

It is for sure that Brexit will pose numerous challenges for business. Companies with a plan will be better able not only to protect themselves and be prepared but also to identify opportunities to get ahead. It remains to be seen whether EU tariffs or other barriers are imposed on-made cars and how huge the impact is going to be.