

Brexit Considerations for Procurement

What else can heads of procurement do to prepare for the - as yet uncertain - impact that Brexit may have on their businesses? Here are some key areas for you to consider and in which you can take some action. Please note, these are for guidance only. This is not a definitive list. Where appropriate, members should seek legal and/or financial guidance.

1. Review Your Supplier Base

Should you replace your EU suppliers?

The fact is that most businesses cannot simply replace all their EU suppliers with local ones. And conversely, those EU suppliers won't want to lose your business.

The question should be: how can you be prepared to make that decision quickly once the impact of Brexit is clear?

Doing some groundwork now: identifying alternative sources both in the UK and elsewhere and reviewing the total cost of ownership of the items they supply will give you a good base to work from.

Then, when the impact of any new trade tariffs on your current EU suppliers becomes clear, you will be in a position to review them vs the alternatives and make speedy decisions.

During this process you might even find new suppliers that would bring immediate benefit.

2. Identify Critical Suppliers

Which suppliers are really critical to your business and cannot be easily replaced? Identify these and start to think outside the box.

- Those who provide a unique product or service to you or your customers.
- Suppliers of major pieces of equipment and their spare parts that are critical to your business.
- Suppliers of raw materials that can ONLY be sourced from within the EU.

What price increase (due to duties, taxes and other costs of dealing with EU companies) would be acceptable?

What would you do if the price went above your threshold?

It's a terribly hard question but thinking about it now will mitigate potential losses in the future.

3. Consider Helping Critical EU Suppliers Set Up in the UK

This may seem challenging, but some businesses are already considering helping their suppliers set up in the UK.

The car industry, in particular, has been involved in what the FT recently described as a "concerted nationwide effort to rebuild the UK's automotive supply chain."

If your suppliers either can't or won't set up in the UK then another option is to develop your own internal supplier. This is clearly a huge step but in the right situation represents a viable alternative which has the potential to be a major strategic step forward for the business.

4. Supply Chain Audit

A supply chain audit is advised for lots of reasons other than Brexit - compliance with Modern Slavery laws, concerns about sustainability, and environmental considerations to name but a few.

With reference to Brexit, a supply chain audit could reveal potential issues further down the supply chain - those who provide raw materials, goods and services to the UK suppliers that you depend on could be located in the EU.

Take a look at your suppliers' other customers too. Are a big proportion of their customers in the EU? Is that a threat to their business, and therefore your supply chain?

5. Carry Out a Contract Audit

Some contracts with (especially smaller) EU suppliers will not include Incoterms rules or International Commercial Terms - the pre-defined commercial terms published by the International Chamber of Commerce (ICC) relating to international commercial law.

What that means is post-Brexit, when businesses who trade with EU suppliers will be importing (rather than simply purchasing) goods and services, they will lack the required trading terms.

Amongst other things, Incoterms establish the place of supply which impacts VAT claims, for example. Currently intra-EU trade is exempt from VAT payments. Come Brexit they will be subject to VAT - depending on the place of supply.

To avoid supply chain disruptions, and rushed contract re-negotiations closer to the Brexit date, we recommend you carry out that contract audit now. Make sure Incoterms are incorporated into all contracts with EU suppliers. Then check your UK suppliers have done the same with their EU suppliers.

6. Be Prepared for Supply Chain Disruptions

It is easy to imagine that the introduction of new border rules may cause delays as goods enter the UK. If this could be critical to your business, it's advised to put a contingency plan in place early. Most companies could not stretch to receiving goods early and storing them - the costs would be prohibitive - so what could you do to minimise the disruption if your goods were held up in customs?

7. System Changes

Check that your internal finance and ERP systems can be adapted to reflect changes such as lengthening order to delivery lead times, greater currency fluctuations, customs duties, etc. System changes will need planning and testing in advance otherwise risks will increase. Plus, review all purchasing related online or offline documentation such as purchase orders, terms and conditions and delivery notes. Will these need to be amended post-Brexit to comply with any diversion between EU and UK legislation?

8. Increased Administration

This is inevitable. All purchases from the EU will become imports, and that doesn't just mean duties and tariffs, it likely means more administration also.