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Look under the surface

Brexit's hidden issues for buyers and suppliers

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Indirect impacts on your business post-Brexit could be costly and brand-damaging. Now's the time to lift the lid on the preparations of your suppliers – or, if you're a supplier, on the intentions of your customers. **Paul Crayford**, Director in Operations Consulting at KPMG, explains why – and how this is also a time of opportunity.

You're confident you've now got your own Brexit house in order. But what about the readiness and resilience of your suppliers? How much do you know about their Brexit risk mitigation? And, just as crucially, that of your supplier's suppliers? Are there likely to be pinch points further down the chain? Do they even have a plan?

And if, on the other hand, your business is on the supply side, how aware are you of your customers' intentions, with March 2019 just 12 months away? What kind of guarantees do you need? Are there issues you should be starting to tackle collaboratively right now?

Our experience with clients shows that hidden risks often lurk just out of view, no matter how bullet-proof you think your business is. Brexit touches everything. That's as true of fashion brands as it is of canned food and drink processors; of health and beauty businesses and automotive firms; of life sciences businesses and industrial equipment manufacturers.

As we've helped businesses dig deeper to assess their exposure, we've unearthed countless unexpected risks, such as:

- Data centre systems based on the 'wrong' side of the Channel post-Brexit - potentially unlawful, if there is no mutual recognition on GDPR.
- A UK third party packaging factory staffed almost entirely by European staff, presenting a significant labour risk.
- Contracts with major suppliers containing no – or at best inadequate – incoterms. That includes issues such as who takes responsibility for price fluctuations in, for example, fuel contracts, or for paying duty charges.
- A threat to speedy service level agreements (SLAs) for machinery repair and spare parts from Eastern Europe.
- A supplier providing physical products and services (maintenance and repair) in the same bundled contract – which will be subject to different terms and conditions and pricing post Brexit.
- Exposure to punitive customs tariffs, because a product turned out to contain a component – or ingredient – sourced from within the European Union.

Many businesses are only now waking up to these issues. Conditional agreement on a Brexit transition period now gives global companies vital breathing space. But early preventative action is still essential to be prepared, in case no final deal emerges.

Just take the case of customs: 180,000 UK businesses have no prior experience of trading with anybody other than the EU, with all the extra red tape that entails – and yet they will need to be up to speed and ready to go, right from day one.

These are accidents waiting to happen. Whatever your business or sector, now is the time to be having these nuts and bolts conversations with your suppliers – and vice versa – to make sure all those 'what ifs' are under control. That way, your business will be in the best possible shape a year from now.

For, of course, putting these changes in place is not only about mitigating the risks but also maximising the opportunities. Whether you're a supplier or a customer, making sure you have all your bases covered will make you more resilient than your competitors – and more attractive to both investors and customers.

What to ask your suppliers...

Your business supplies a **critical component** in my manufacturing process. My brand reputation depends on you getting it right. Have you done a Brexit risk analysis and devised a response plan? How far have you quizzed your own suppliers about their due diligence?

You currently **guarantee us a 12 hour SLA**. Will you still be able to fulfil that a year from now – and if so, how? Have you applied for Authorised Economic Operator (AEO) status to help avoid hold-ups at the ports? Are your IT systems up to the job? Are you thinking about extra warehousing space?

Would I be able to **lock you in to a longer term** deal – 5 years say – so that I can be confident of my continuity of supply?

Have you considered lining up **alternative sourcing domestically**, ready to press the button if necessary to avoid border delays or steep tariff costs?

Right now, if there is a problem with my **EU-built machinery**, you send over an engineer and spare parts from Germany. After Brexit, would you source that support from within the UK?

What action have you taken to **protect your finances** over the past two years, with the pound taking such a hit against the US dollar? Do you have credit insurance and who's providing your working capital?

My business currently **outsources to your data centre** in the EU. But if GDPR adequacy status is not agreed post-Brexit, what alternative solutions are you considering?

Do you know how exposed you and your suppliers are in terms of **EU nationals on the pay roll**? Which of those employees might decide to leave – or be unable to stay? Are you planning to recruit locally?

What to ask your customers...

How **secure is my future relationship** with you? What guarantee can you give me that you'll carry on using my business as a supplier?

Because of the tougher circumstances we may face post-Brexit, **can you revise your expectations** so that we can continue to meet our SLA? Can we move, for example, from a 12 hours to 24 hours SLA – given that you have visibility several weeks ahead in terms of what you'll need to order?

Can **we work together collaboratively on solutions**? If steep new import tariffs are introduced, it may no longer be profitable for my business to supply you with the equivalent of nine flavours of baked beans. How can we work together around that?

My business **may well face extra costs**, to fund labour, warehousing or alternative transport. Would you be willing to help underwrite those?

Are you able to help **carry more inventory**, to make things more cost-efficient and help protect us both against any delays or shortages?

Can we **explore alternatives together** – such as rapeseed oil to replace the Mediterranean olive oil you use to make your UK-manufactured lasagne, which will come with a hefty 34% tariff if no trade deal is agreed?

If I find **I have cash-flow problems** due to circumstances beyond my control, would you consider some kind of strategic merger to help tide things over?

Our experts' views

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"We expect to see procurement move right up the Board agenda over the coming months, as businesses become aware of the potentially serious implications of indirect Brexit impacts elsewhere in their supply chain. There have been examples recently which show how rapidly a situation can spiral out of control, with a risk of huge reputational damage. We're advising clients to consider everything from shadow supply chains to a complete review of their contractual arrangements across the board. Becoming Brexit proof is all about having that 360 degree view. And, given that much of this should be normal business practice, the positive impact will last well beyond Brexit."

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"We advise our clients that their first priority should be to segment their supply base according to the level of Brexit risk. The more you rely on that unique component, the higher the spend or volume of transactions you have with a particular supplier, the greater your focus should be on defining that relationship. If some companies are sole source suppliers, you need to be considering alternatives to ensure continuity of supply. We're working with companies across diverse sectors, helping them to set up their PMO, assesses their Brexit impact and put in place their mitigation plans, which, depending on the business, might include a range of operational, supply chain and tax initiatives."

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"An important factor in terms of Brexit readiness is the need for customers and suppliers to understand the challenges each other faces, whether that's in terms of costs, SLAs or logistical hurdles. The stronger their relationship and the greater the visibility about each other's business, the better they'll be able to work together collaboratively to devise an appropriate response."

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"It's important for businesses not to bet the bank on transition going ahead. Aside from all the current rhetoric, nothing is agreed until everything is agreed. Businesses right through the supply chain should therefore be pressing ahead with their no regrets preparation: activities such as putting an inventory in place, staff engagement and contractual reviews. There could well be a rush for resources later in the year - smart companies will ensure they're well ahead of the game."

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