

CIPS Brexit Health Check Brief

Last week's referendum has caused a shockwave across the world in both peoples business and personal lives. Business boardrooms are no doubt consumed with second-guessing what might happen, and seeking ways to mitigate the risks and looking for opportunities that might arise as a result of the decision.

As David Noble, CIPS Group CEO advised in [his article in Supply Management](#), Procurement and Supply professionals have a crucial role to play in the immediate aftermath of the UK Brexit decision, which is that you must act as the suppressor of panic, not the creator. Supply chain managers often have a habit of emphasising or exaggerating concern, which can then ripple and magnify all the way down the chain.

There are some steps that can be made immediately, despite the uncertainty, which procurement and supply chain professionals are best equipped to handle. This Brexit Health Check Brief is designed to help organisations identify and prioritise potential exposures and opportunities.

CIPS isn't speculating on possible scenarios or deals that might arise, but is highlighting best practice procurement and supply strategies that will help in this situation, to help businesses either become scenario-agnostic, or work on flexible and agile plans and contingencies.

1. Where do I start?

This is a great opportunity for procurement and supply professionals to demonstrate the true value of 'good procurement practice'. Having a handle on what you spend where, who your suppliers are, implementing agility and flexibility, and above all, building robust relationships with suppliers...all this hard work will inevitably pay-off.

- i. **Business-As-Usual** - firstly it is important for organisations to reassure suppliers and customers. Whatever the deal that will be negotiated, with or without the EU, it is going to take time (at least two years) to sort out, so for now it should be business-as-usual, with perhaps more consideration with regard to length of contracts, with clear change mechanisms, and possible break clauses.
- ii. **Work together** – build a cross-functional task team to monitor the situation, drawing on expertise from risk management, compliance, finance, legal, operations, and sales and marketing.
- iii. **Prioritisation** - prioritise the likelihood of the impact-risk and create a list of those contracts that are more likely to be affected.
- iv. **Contract Review** - it is important to assess the possible impacts across current contracts, as well as future deals. (see Section 2 - Impact Assessment)
- v. **Research and Monitor** - continue to monitor issues as more information arises.

-
- vi. **Communication** – consult credible sources and ensure that the Procurement department is well-provisioned with accurate and timely information, and keep stakeholders informed, and issues transparent within the organisation.

2. Impact Assessment

As part of the initial planning stage it is critical to find out what the issues are and where they are most likely to cause a potential problem. The following questions are examples that you might want to consider during your contract review; this is not an exhaustive list and not all the questions will be relevant to all contracts.

Strategic and Operational

This is an ideal time for organisations to take a step back to re-evaluate the need or identify activities or spend that could be made in-house rather than bought in.

Questions to consider will include;

- What are we sourcing from inside the EU either directly or further down the supply chain? Encourage your suppliers to take responsibility to seek out this information beyond Tier 1.
- What are the possible outcomes or deals that might arise based on the information available? Build some possible scenarios and assess the actual impact; for example what would be the impact on costs of an $x\%$ trading tariff with EU countries?
- Are any of your maintenance or support services for your operation, or a product, dependent on EU-based suppliers?
- Are any of your contracts in a potential monopoly situation that a supplier might exploit?
- Are there alternative local sources of supply available?
- Logistics considerations with the possibility of changing or increased border controls possibly causing delays.

Financial

Procurement can play a critical role in advising the CEO on areas that could cause the greatest financial risks to the business. Close monitoring and reporting back to the board on exchange rate fluctuations and their effect, and interest rates, will help build a picture of the overall liquidity and cost of trade the business is exposed to.

- Are any of your suppliers benefiting from EU grants or funding? (e.g. for research); would the loss of EU funding put this supplier in financial risk?

- Which contracts are most sensitive to price fluctuations from, e.g. interest rate and exchange rate volatility?
- What is the exposure on profitability, liquidity and cash-flow as a result of increased supply chain costs?

People

The movement of labour is one of the big unknowns at this stage so considerations should be flagged, and monitored closely as more information is made available. Changes in the law regarding employment, immigration and the free movement of EU workers should be monitored.

- What activities, operations or contracts are reliant on EU labour?
- Will you be exposed to a talent shortage if there are restrictions on the movement of labour e.g. could a supplier lose a key employee?
- What other sources of labour, skill or capability will be available?
- Could these labour implications mean you should re-consider make versus buy options?

It's worth monitoring the CIPD blog [‘what will Brexit mean or UK employment law’](#)

Compliance

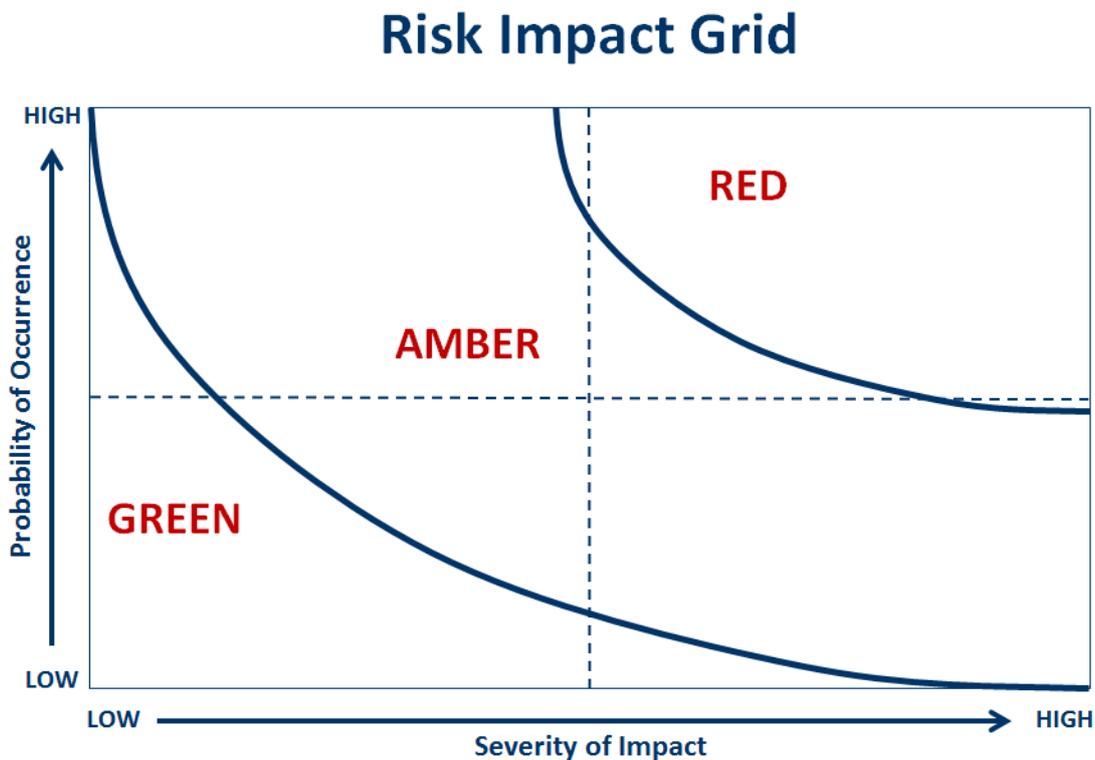
Another unknown is what would happen to trading tariffs and taxes, as well as the cost of compliance with any new regulations that may ultimately be introduced. Procurement and supply professionals should work closely with either their in-house legal team or legal advisers to monitor and keep up-to-date with any changes as they occur.

- What is the legal jurisdiction of the contract?
- Are there opportunities where de-regulation may make trade easier?
- Identify contracts where IP ownership of critical and single-sourced products is EU-based.
- Are you transferring any personal data with your EU-based suppliers - might there be any Data Protection issues to deal with?

3. Prioritisation

Although it is important to identify potential risks, this must be balanced with the likelihood of them occurring. The CIPS Risk Impact Grid (*Fig 1*) is a simple tool for the initial prioritisation of contracts in order to focus resources. More tools and guidance on risk management and mitigation are available from the [CIPS Knowledge Hub](#).

Fig 1 CIPS Risk Impact Grid



4. Research and Monitor

Following news feeds such as Google Alerts will help procurement teams to keep up to speed with the latest developments. Key words can be entered and news stories sent directly to your inbox to make it easier. CIPS and Supply Management will continue to keep you updated but it is also worth listing news sources that are most relevant to your sector or industry.

Suggested links

www.cips.org/knowledge

www.supplymanagement.com

www.bbc.co.uk/brexit

www.bcgperspectives.com

<http://knowledge.freshfields.com>

<https://hbr.org>