Avoiding Brexit stock gaps

A short survey of your supply chain can help you see below your first tier, and start a realistic plan to build in a buffer.

With Brexit only a few months away, what are you doing to avoid supply chain disruption? Andrew Brown is preparing to pull forward delivery of 25% of at-risk products into the first quarter of 2019. Among other things prompting this decision ahead of Brexit, the procurement director of electronics and engineering firm Leonardo UK sent out a short survey to some of its supply chain with just 13 questions.

It was really just a business continuity plan, he says, adding: “I prefer that language. It enables a dialogue around a less contentious subject.”

The procurement team could see the potential risk in the company’s tier-one suppliers through the business systems. “But we couldn’t see below that,” he says. Brown’s team procures products such as power supplies, printed circuit assemblies, and machined parts to make products, such as radars.

A client, Airbus, sent out a survey with over 80 questions to suppliers earlier this year, and by June announced a need to buffer €1bn worth of stock ahead of Brexit. While Brown agrees it is a good starting point, he wouldn’t know what to do with all the answers: “So we took a pragmatic approach.”

He used the 4-box modelling for early scenario planning, to consider cross-EU border complexity in one, and the impact of Brexit on legislation and compliance in the other. “We’ve done a graphical representation to show if you have a linear delivery profile through 2019, say 10 a month, our recommendation is to pull forward 25% into quarter one, or maybe starting December this year. You still want 120 in the year, so you will have a cash flow impact quarterly but not during the whole year,” he says. Using a shared database of suppliers delivering to the air defence sector, a survey totalling 13 questions was sent out to 3,000 suppliers, 400 of which were Leonardo’s, so each supplier only had to answer once to provide the information to a number of clients. “It was good collaboration, reusing the system we already had – providing one voice to many customers,” Brown adds.

More than half of the questions were yes/no, asking about preparation, he says. Quantitative questions were asked about the sales and revenues that are reliant on UK, continental Europe or other, and the level of production and procurement – “because that’s where we start to see the risk.” “We don’t want to get to April and find that the supplier in France is now on hold because we have got a new licence to fill out and we don’t know how to do it,” he says. If a supplier said that 60% of its procurement was done in central Europe, Brown started talking to them about whether that’s in a Leonardo product, and if so what. “And if we think there is a risk in quarter two,” he says, “we say we want you to pull that material forward – preferably without any cost impact.” “One of the first things I learned was that not a lot of people had looked at this, or taken action,” he adds. “But there was also a growing acceptance that it needs to be on the agenda.” Action began on critical parts with long lead times.

Brown has produced a Brexit procurement guide to ensure everyone in his team is on the same page when engaging with suppliers. “Otherwise you will get everyone interpreting it differently,” he explains.

Keep the survey simple, and you should get manageable results, says Brown. “We are just putting some thoughts and plans around the unknown,” he says, and of course something could be missed. “But I would much rather pass the red face test in April by being able to say we have got a small buffer, I’ve targeted risk material, it’s already in the warehouse and we can continue to manufacture.”

The questions

1. Has your business done a Brexit risk assessment on the effect of changes to:
   1.1 Customs procedures for export and import
   1.2 Common standards
   1.3 Currency fluctuations on business manufacturing, transportation and storage
   1.4 Employee rights to live and work in the UK/EU, and travel
   1.5 Supply chain and manufacturing lead times, and supplier and contractor vulnerabilities
   1.6 Legal status of corporate certificates, staff qualifications, intellectual property rights, relationships with subsidiaries and partners
   1.7 Tariffs and taxes, and ability to understand and manage new requirements
2. What percentage is in UK / rest of EU / outside EU, of:
   2.1 Market
   2.3 Production
3. Do you hold Authorised Economic Operator status for imports and exports, and is it granted by the UK or another EU state?