

Procure4 considers how to be Brexit-Ready

The effect of the 3.8% margin for the leave campaign on 23rd June 2016 will define the economic and business landscape.

The impact has already started to be felt with the pound the worst performing currency in the world this year. HSBC are forecasting that the £ will fall to \$1.10 and hit parity with the Euro by the end of 2017 as fears of a hard Brexit intensify. This plunging pound has sent the cost of imports soaring and the impact was demonstrated in Tesco's refusal to accept the 10% price hike from Unilever in October. This was but a skirmish, the reality of increased costs will mean a heightened focus on efficiency savings, putting Procurement at the centre of business strategy.

So, what should procurement leaders be doing now to future proof their organisations? Indeed, can we take advantage of this situation?

Here at Procure4, we've been reviewing the likely Brexit impacts and, more importantly, how to prioritise the risks, take advantage of the opportunities and be on the front foot for Brexit.

The Priority for Procurement Today

This is what we KNOW or have high levels of certainty will happen as a result of the vote. As we saw at the time of the referendum, the markets are reacting and we expect continued currency swings. We therefore recommend that category managers map out end-to-end supply chains to understand geographical sources of goods and identify where currency fluctuations may hit. All contracts should be reviewed to ensure currency movement clauses have the right level of floors and ceilings attached to protect your business.

Similarly, we also know commodity markets will react to Brexit related news. At Procure4 we believe businesses should follow one of two strategies, dependent on the degree and nature of their exposure:

- Lock in, have certainty over costs and ignore the 'what-ifs' when prices move.
- Manage, through sophisticated hedging or options policies.

Review your strategies, but, also familiarise yourself with your first and second tier suppliers hedging policy, be demanding that they are protecting your interests.

The Opportunity for Procurement over the next 12 months

We believe that the UK will experience price increase demands. This is because the European supply base will believe it will be more expensive to work with Britain, and UK buyers will be anticipating Brexit related price increases. In reality, we believe it is opportunistic and the best defence against it, will be attack.

Negotiate with existing suppliers to lock in supply and improve your pricing now. Understand that the threat of price increases for the UK, is also a threat of demand reduction for EU suppliers. If all the UK commercial functions are looking for alternative routes outside the EU, then this will create a negative forecast for existing suppliers as well as enticing in new global entrants. It's a big threat for the existing suppliers and therefore, a great opportunity for buyers.

Competitive advantage lies in using the option to switch to be on the front foot and negotiate better deals now with your incumbent supply chain.

Alongside the opportunity to negotiate we are recommending to our clients that they develop robust supply alternatives in their category plans. The R&D and Procurement functions should all be rapidly developing their networks outside of the usual country of origin for goods and services. The key to being Brexit-ready is having credible options.

The Risks for Procurement over the next 12 months

We believe these are issues that will arise but are likely to be manageable, these should not distract from the priorities and opportunistic planning that is undertaken.

- **Labour** - we accept that Low-Skilled labour is threatened and areas like fruit picking, contract cleaning, security and logistics will all need revised strategies on how to cost effectively provide these services. However, we do not see the same medium - long term impact on highly skilled labour, nor do we see travel or management of international teams as a significant challenge.

- **Contractual Relationships** - again we accept that clauses currently governed by EU legislation will need varying e.g. IPR, Data Protection, TUPE, Competition and Employment law. However, we believe this will take time to unwind so we recommend establishing a streamline process for contract variations (embedding a fee agreement that encourages lawyers to act efficiently) and making sure the buying community is knowledgeable in contract negotiations.
- **Customs Duty and Declaration Procedures** - administrative changes will be required and resource needed to make the necessary changes to ERP systems etc. This needs to be planned in and budgeted but is not a key risk to an organisation at this stage.

The Risks for Procurement in the Medium Term

We recommend that our clients consider and plan for the following risks:

- The threat of Anti-dumping laws changing
- The impact on the preferential origin status of Goods and Services bought in and sold by our clients.
- Impact on supply chains if Scotland hold and win an independence vote or border controls are introduced between Northern and Southern Ireland

Summary

The impact of 'Brexit' creates a genuine challenge for businesses and means that Purchasing has a pivotal role to play in helping to mitigate increases and manage risks. At Procure4 we are helping clients to be on the front foot for Brexit.

