

Get Supply Chain ready for Brexit

8 Processes Supply Chain Health check

The UK's decision to leave the EU will have wide-ranging effects for the supply chain. In such a period of uncertainty, it is important that your supply chain processes are resilient. Any weaknesses that exist in your supply chain processes could have a serious impact on your business.

Successful supply chain management requires integration across your teams or divisions within your firm and across the entire network of firms that form your supply chain. A lack of this internal and external integration is a key reason why firms fail to achieve their desired improvements in supply chain performance.

You can use the framework provided to health check each of these supply chain processes, highlight some of the key Brexit impact areas within each of these processes you need to assess and develop strategies to improve your supply chain health.

Key Supply Chain Processes

Best in class firms no longer just compete supply chain versus supply chain. A key area of competitive advantage is **relationships**. Developing, managing and nurturing key relationships along the supply chain has been proven to result in increased supply chain performance.

There are 8 key supply chain processes but given the importance of relationship management in achieving supply chain health, it is the two key relationship management processes that form the hub to which all other key processes are linked - Customer Relationship Management and Supplier Relationship Management (see Figure 1).

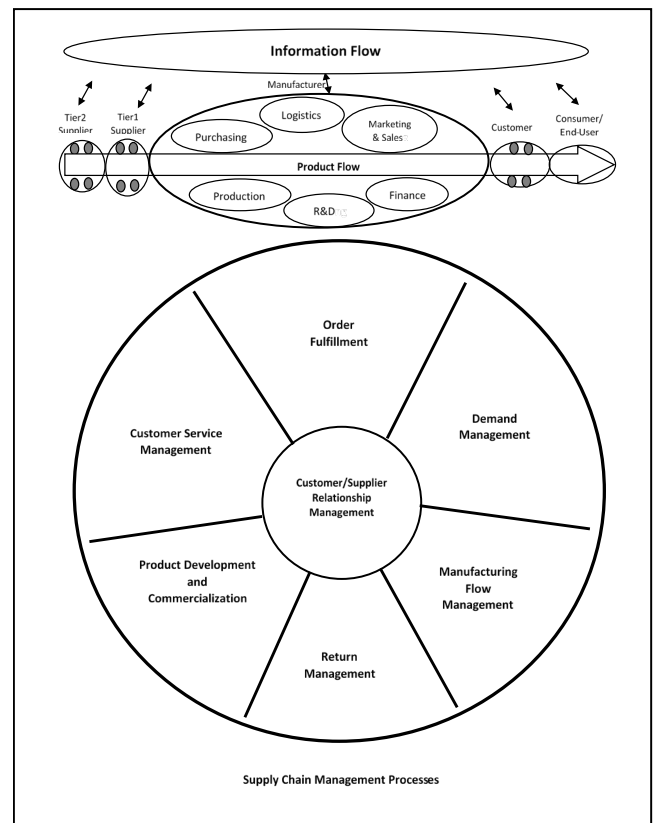


Figure 1: Key Supply Chain Processes (adapted from Lambert and Enz, 2017)

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1. Customer Relationship Management

Customer relationship management is strategic in nature. It should also be cross functional and add value along the supply chain.

This key process provides the structure for how relationships with your current and potential customers will be developed and maintained, both in the short term and longer term. The aim is to strategically segment your customers based on their needs or value to the firm. Customers that are **key** to the firm should be given additional attention to encourage increased customer loyalty and ultimately business growth. Looking at it from a supply chain perspective, this means that you need to implement integration strategies, such as creating cross functional teams with your key customers and setting key performance goals through Product and Service Agreements.

Potential Brexit impacts on customer relationship management

- ***Increased supply chain costs and reduced sales*** - any increase in trade barriers or tariffs would reduce trade volumes and increase import prices for Northern Ireland firms and their customers. Such increases in supply chain cost would inevitably be passed onto the customer in some way potentially leading to reduced sales turnover or a loss of business.
- ***Disruption to customer relationships*** - if you are a firm with customers in the Republic of Ireland and GB, service agreements and contracts with customers will have to be renegotiated. Longer lead-times, particularly in relation to perishable goods, may mean that you are no longer able to serve Republic of Ireland markets and meet service agreements for key customers.
- ***Changing customer requirements*** - Brexit may also mean that certain products may have to be adapted to meet new regulations. For example, in the event of a no deal Brexit, product regulations such as CE markings will change.
- ***New customer costs and logistics complications*** - Northern Ireland firms may have to develop new customer relationships post-Brexit as a result of impacts already highlighted. Identifying and supplying new customers will initially come at a cost the business and increase supply chain risk in the short-run. For example, firms may have to completely rethink their logistics networks leading to initial delays and issues with suppliers.

2. Supplier relationship management

The supplier relationship management process provides the structure for how relationships with suppliers are managed and developed. Suppliers can be segmented based on their importance to the firm, meaning relationships can range from longer-term partnerships to transactional short-term contracting arrangements.

Potential Brexit impacts on supplier relationship management

- ***Contract management complexities*** - longer-term strategic and preferred supplier contracts could be particularly at risk from Brexit. If one of your suppliers is based in the Republic of Ireland, these contracts will have to be reviewed, as for example, border delays may impact service level agreements. Issues such as the fluctuating exchange rates will mean that you may have to use fixed rate contracts and hedging instruments going forward.
- ***Disruption to key suppliers*** - longer lead-times and increased delays due to customs changes may strain relationships with your key suppliers. For example, if you are a Northern Ireland firm with key, single source suppliers in the Republic of Ireland, you may face difficulties if there are no alternative suppliers on the Island of Ireland. Similarly, if Brexit ends with a customs area in the Irish sea, and your key, single source suppliers is in mainland UK, then this will lead to delays as checks will be required to establish if the product is tariff free under rules of origin regulation, and even if they are tariff free goods for Northern Ireland, there may be initial costs applied through the EU which later need to be reclaimed through a yet to be developed rebate process.
- ***The need for new supplier relationships and skills*** - post-Brexit supply chain relationships may come to an end and new suppliers will have to be selected perhaps from the EU and beyond. In order to form new relationships with EU suppliers, you may need to develop language and cultural management skills, implement new logistical solutions and develop robust global supply contracts which factor in issues such as extended lead times and disruptions.

3. Customer service management

Customer service management involves monitoring service agreements and ensuring that there are no problems involved in meeting the customer requirements. Customer service involves ensuring that supplier relationship management, manufacturing flow management and order fulfilment are integrated to ensure that customer requirements are met.

Potential Brexit impacts on customer service management

A difficult Brexit may see a decline in customer service levels for Northern Ireland firms who supply customers in the Republic of Ireland and the rest of the EU. For example, some of these impacts could include the following:

- **Next day or expedited delivery** services may have to be eliminated if there are delays at customs and lead-times increase.
- **Tariffs or customs duties** may eliminate free shipping for your customers and increase shipping prices.
- **Product returns** may be very costly for your firm due to increased shipping costs.
- **Customer retention** may lead to increases in the cost of doing business with the EU, which will mean your firm may not be able to retain these key customers post-Brexit.
- **Relationship decline:** due to poor services levels, long-term customer relationships may be discontinued.

4. Demand management

Demand management is matching supply with demand and having a plan to minimise any disruptions. It includes activities such as forecasting, reducing variability and increasing flexibility.

Potential Brexit impacts on demand management

- **Slower response to demand changes** - Brexit-related delays may mean your firm has to warehouse or stockpile inventory. This may make your firm susceptible to short-term changes in demand, leaving you with inventory which you cannot sell.
- **Decreased supply chain visibility** - Northern Ireland firms may start selling more into the UK market where sales in the EU are lost. It may take your firm time to adapt its supply chain to acclimatise to new demand requirements and patterns in these markets.

5. Order fulfilment

Order fulfilment refers to the steps involved in receiving, processing and delivering orders to your end customers. At a strategic level this will require an understanding of where key customers are based, what countries should be utilised to service these markets. You need to consider service requirements, material costs, distribution costs, labour costs, tax rates and import and export regulations.

Potential Brexit impacts on order fulfilment

- **Change in logistics arrangements** - the major risk to order fulfilment comes from the transit risks stemming from Brexit. Delays at customs may disrupt order fulfilment requiring your firm to seek alternative transport routes. You may need to engage the services of a customs clearance agent after a no-deal Brexit in order to make export declarations.
- **Stockpiling and warehousing costs** - your firm may have to stockpile inventory close to your customer markets to ensure order fulfilment and reduce stockouts. However, this can lead to increased supply chain costs.

6. Manufacturing flow management

Manufacturing flow management includes all activities necessary to obtain, implement and manage flexibility in the supply chain, and to move products into, through and out of the plants. In other words, it is concerned with ensuring firms in your supply chain have the necessary resources and capabilities to ensure flexibility of supply.

Potential Brexit impacts on manufacturing flow management

- **Disruption of flow strategies** - Brexit is likely to disrupt manufacturing flow. For instance, just-in-time (JIT) arrangements with key suppliers may be hampered due to supply chain delays and your firm may have to carry costly excess inventory due to the increased need for warehousing.
- **Capability gaps** - your firm may have to invest time and effort in reconfiguring your supply chain to allow for greater flexibility to ensure the flow of manufacturing and retain supply chain resilience. This may involve investing in supply chain capabilities such as customs training and even employing new in house supply chain expertise.
- **Mapping your supply chain and moving to local sourcing** - your firm may have to relocate to local suppliers in your supply chain, which might allow you to maintain JIT arrangements.

7. Product development and commercialisation

Product development and commercialisation is the supply chain management process that provides the structure for developing and bringing to market products jointly with customers and suppliers.

Potential Brexit impacts on product development and commercialisation

- ***Loss of business and/or access to cutting edge designs and technologies*** - many Northern Ireland firms use the EU as an R&D base and have collaborative relationships with suppliers in areas such as product design and packaging designs. For these firms, supplier innovation is a source of core value. The introduction of tariffs and trade barriers and the withdrawal of EU research funding in the UK may inhibit some of these relationships and affect innovation in the future.
- ***Intellectual property disputes*** - questions remain as to how intellectual property rights will be protected after Brexit. Although patents may be largely unaffected by Brexit, supply relationships may break down, creating the potential for disputes in relationships related to unpatented knowledge such as working product designs.

8. Product returns management

Returns management refers to the activities involved in managing returns within your firm and across key members of the supply chain. There are many types of returns that have to be managed including customer returns, marketing returns, asset returns, product recalls, damage returns and environmental returns.

Potential Brexit impacts on product returns management

- ***Increased risk of product returns*** - due to potential new customs arrangements and logistical arrangements following Brexit, there is a greater likelihood for goods to become damaged in transit or on customs inspection as goods may have to be loaded and unloaded more frequently.
- ***Complications of switching suppliers and product recalls*** - switching to UK or RoI suppliers, depending on the outcomes of the Brexit deal, means that some of the knowledge your firm had with their original suppliers may be lost. This may initially lead to quality issues and increased product recalls.
- ***Complications for closed loop supply chains*** - firms that reclaim materials for recycling from the Republic of Ireland customers, and vice-versa, may find that this arrangement is no longer feasible.