How to develop strategies for managing Brexit-related risks in your supply chain

You can develop strategies for managing each of the Brexit-related risks in your supply chain.

Potential strategies for dealing with delays

- You can plan for delays by adjusting and managing your manufacturing capacity and inventory levels. If you are involved in producing non-perishable items, it may be necessary to carry a buffer inventory.
- A further strategy is maintaining additional flexible capacity in your production processes.
- Another solution for delays is combining inventory types with different modes of transport. If you are a small, high value type components firm you could hold limited inventory and rely on high cost air freight, whilst for lower cost components you could hold buffer inventory levels with regular low-cost distribution arrangements.

You can be proactive in ensuring your customers do not suffer delays in receiving products. Some potential strategies are as follows.

- If you are a firm supplying customers in perishable food chains, you could consider holding inventory closer to your target customers. Warehousing operations, with capacity in the relevant temperature regimes, could be targeted in or near the target markets or at strategic ports in the UK or the EU.
- If your firm is in perishable products supply chains, you could consider air freighting products to selected markets, where it is cost effective. For some high value, short shelf-life products being offered for sale to more distant EU markets, the option of using air freight could be considered. Although the cost of air freight may be much higher than by road, it may be the only viable option.

Potential strategies for dealing with disruptions

- You could build inventory in products that are at high risk of disruption. However, holding inventory can be extremely costly, particularly where it is being held to allow for events that are unpredictable and may never happen. In the event of the disruption not occurring, you still have to incur the cost for the inventory. Therefore, you should only hold inventory where there is a high likelihood of the disruption occurring.

- You could also have multiple suppliers available, which makes switching possible. Having multiple suppliers can reduce the risks of disruptions through having alternative suppliers. However, where a firm splits its supply requirements for a product across a number of suppliers it may reduce its buying power in the supply chain.

- You could also consider switching to suppliers in other locations or using suppliers in a location where there is less likelihood of disruption. For example, firms in Northern Ireland relying on suppliers for products in the Republic of Ireland could identify new suppliers in Great Britain for the same products.

Potential strategies for dealing with information technology systems risk

- You may have to consider amending your information technology (IT) systems to cope with more complexity in terms of information, frequency of data input and changes to customs declarations. For example, different rules around VAT changes as a result of Brexit may mean prices have to be amended on your IT system.

- You should carefully consider the extent of changes required to your IT systems as a result of Brexit. The uncertainty associated with the potential Brexit outcomes makes this a challenging decision. For example, opting for short-term systems changes should allow you to move more quickly when the final outcome of Brexit becomes clearer.

- You should also consider the capacity of your current IT systems. For example, IT systems that process customs declarations may be unable to cope with the volume of declarations or that the order processing speed will be severely compromised.

Potential strategies for dealing with forecast risk

- You can reduce forecasting risk through holding inventory and building more responsive manufacturing and delivery capacity. Warehousing inventory is suitable for low cost, commodity-type products with low holding costs, whilst responsive delivery is better for more expensive products with short product life cycles and where there are significant forecast errors.

- Where it is feasible, you can build close collaborative relationships with both suppliers and customers to help overcome some of the supply chain forecasting risk. You can share customer demand information more frequently with suppliers and this will give them greater visibility of your needs, which can limit the problems with forecast risk.

Potential strategies for dealing with inventory and warehousing risk

- You should engage in inventory planning immediately. If you are manufacturing perishable products, stockpiling is not possible. Where appropriate, you should seek out specialised storage and warehousing to avoid disruptions at key distribution points.

- You may need to upgrade your inventory management systems to manage potential inventory scenarios as a result of Brexit. Where you decide to enter new global markets, new stock keeping units (SKUs) may be required thus increasing the complexity of inventory management. Moreover, Northern Ireland manufacturers may have to source more material from the UK. This could potentially lead to increased holding costs, for example, increased warehousing at ports.

- In some cases, you should seek specialist advice on inventory management from industry consortia and supply chain specialists. For example, in the medicine supply chain, community pharmacies have been instructed not to stockpile medicines as larger manufacturers and distributors have established buffer inventory and stockpiling could lead to shortages as well as extra costs.

Potential strategies for dealing with procurement risk

- You can alleviate procurement risk, as a result of changes in exchange rates, through currency hedging and also spreading manufacturing for products across different geographical locations.

- You can reduce the risk of supplier price increases through employing longer-term contracts or in some cases, holding inventory. However, it must be stressed that employing longer-term contracts can lead to higher costs where the prices of products fall and there is high product obsolescence.