

How to select an appropriate sourcing option in the context of Brexit

The choice of sourcing options as a result of Brexit is influenced by the *supplier performance position*, *internal availability of technical and management expertise*, and *switching costs*.

When you should consider bringing a process back in-house

You may have to consider bringing a process back in-house in instances where buying from a supplier in the EU has lost its attractiveness in terms of price and overall costs due to rules of origin problems, customs issues or exchange rate changes.

This strategy is likely where there are no local suppliers available and you have the internal technical and management expertise to manufacture the product in-house.

You should ensure you can manufacture the product in-house at a similar or higher level of performance than external suppliers, whether local or in other global locations.

You will also have to consider the switching costs of transferring a process from an external supplier back in-house. A key benefit of bringing a process back in-house is that it will eliminate supply market risks such as over dependency on a supplier, uncertainty in requirements and the problems associated with a limited number of suppliers in the supply market.

Summary conditions that favour this sourcing option:

- ***Supplier performance position*** - you can achieve similar or better performance in terms of price, delivery, quality and service in-house than external suppliers.
- ***Internal technical and management expertise*** - you possess the required expertise to manufacture the item in-house.
- ***Switching costs*** - these costs are manageable and you can reduce the risk of supplier dependency through manufacturing the item in-house.

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When you should consider bringing a process back to a local supplier

You may have to consider transferring a process to a local supplier in Northern Ireland where one of your current suppliers in the EU has lost its competitiveness in terms of cost or delivery service as a result of Brexit.

You should consider carefully whether there are local suppliers available in Northern Ireland that meet your performance requirements in terms of price, delivery, quality and service.

Also, you might have to use a local supplier as you lack the internal technical and management expertise to manufacture the product in-house.

You should consider the switching costs of transferring manufacture of the process to a local supplier. Issues you should consider here include the number of available local suppliers, and level of dependency once you transfer manufacture to the chosen supplier.

Summary conditions that favour this sourcing option:

- **Supplier performance position** - a local supplier can achieve similar or better performance levels in terms of price, delivery, quality and service than your current supplier.
- **Internal technical and management expertise** - you lack the technical and management expertise to manufacture the item in-house.
- **Switching costs** - switching costs are manageable through the presence of a number of capable local suppliers.

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When you should consider transferring a process from a local supplier to a supplier in the EU

The impact of Brexit could lead you to consider moving a manufacturing process from one of your local suppliers to a supplier in the EU. In this scenario, you should consider whether potential suppliers can deliver the item at the required performance levels in the selected location.

Although this option might allow you to source a lower priced product, you should consider the additional logistics costs of sourcing the product over a greater geographic distance in comparison with the current arrangement with the local supplier.

A potential advantage of this strategy is that it could increase the number of suppliers available to you as you are sourcing from a larger geographical supply market.

Summary conditions that favour this sourcing option:

- **Supplier performance position** - the EU-based supplier can deliver better performance in terms of price, delivery, quality and service than your current local supplier.
- **Internal technical and management expertise** - you lack the necessary technical and management expertise to manufacture the item in-house.
- **Switching costs** - these should be manageable through sourcing a process with relatively standard requirements, moderate or low levels of uncertainty and the availability of a number of alternative suppliers.

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When you should consider transferring a process to an offshore supplier

When undertaking a review of the implications of Brexit you could consider switching supply sources beyond non-EU and non-UK suppliers to offshore suppliers in more distant, global locations.

Offshore locations can offer significant advantages through suppliers having significant lower production costs. Moreover, these locations are enhancing their educational and skills bases, and therefore can extend their capabilities beyond price alone to offer more complex, knowledge-based products.

In this scenario, you should carefully consider performance issues such as quality, delivery and service levels offered by the global supplier, which might not be at the level offered by local suppliers.

Also, as a result of the difficulties and complexities of managing suppliers over greater geographical distances, you could be limited to sourcing products from suppliers that are highly standardised. Therefore, in the event of supplier failure these can easily be brought back to local suppliers.

Summary conditions that favour this sourcing option:

- **Supplier performance position** - the offshore supplier can deliver better performance in terms of price, delivery, quality and service than your current local supplier.
- **Internal technical and management expertise** - you lack the necessary technical and management expertise to manufacture the item in-house.
- **Switching costs** - these should be manageable through sourcing a process with relatively standard requirements, moderate/low levels of uncertainty and the availability of a number of alternative suppliers.

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When you should consider reshoring a process back to a local supplier

Some firms have begun to bring processes back from suppliers in offshore locations to local suppliers. Brexit is likely to influence reshoring because common reshoring motivations include change in exchange rates leading to higher costs in offshore locations and less border regulations from using local suppliers.

In this scenario, you should consider whether the local supplier can deliver better performance in terms of, for example, improved lead times from being located locally and through lower logistics costs. The supplier is likely to be more responsive to your demands as they are located closer.

You should also consider the switching costs of transferring the manufacture of the process to a local supplier. Issues you should consider here include the number of available local suppliers and level of dependency once you transfer manufacture to the chosen supplier.

Summary conditions that favour this sourcing option:

- **Supplier performance position** - the local supplier can deliver better performance in terms of price, delivery, quality and service than your current supplier in the international location.
- **Internal technical and management expertise** - you lack the necessary technical and management expertise to manufacture the item in-house.
- **Switching costs** - these should be manageable through reshoring a process with relatively standard requirements, moderate or low levels of uncertainty and the availability of a number of alternative suppliers.