How to identify the influences on the sourcing options in the context of Brexit

Brexit is likely to lead to changes in factors such as labour costs, raw materials costs and logistics costs, which in turn have implications for whether you are manufacturing in-house or where your suppliers are located. Also, you may have to alter sourcing arrangements to comply with 'rules of origin' changes as a result of Brexit.

You should review your current sourcing arrangements as a result of these potential changes brought about by Brexit.

There are a number of key influences on the potential sourcing options you should identify in a Brexit context.

Supplier performance position

The performance of suppliers in terms of price, delivery, quality and service will influence your decision on whether to move a production process to a supplier in another location or bring the process back in-house. A number of relevant scenarios are outlined below.

Bringing a process back to a local supplier
If you are a manufacturer in Northern Ireland that is considering bringing a production process back from a Republic of Ireland supplier to a local supplier in Northern Ireland, you will have to consider whether potential suppliers in Northern Ireland can deliver the production process at the required performance levels in terms of price, delivery, quality and service.

Bringing a process back in-house
If you are a firm that is considering bringing a production process back in-house, you should compare the current performance of suppliers with what your firm can achieve if it uses its own in-house production in terms of price, delivery, quality and service. Ideally, the production process should be delivered by the most competent provider of the process, whether that be an external supplier or in-house within your firm.

There are a number of techniques that can support your analysis of the supplier performance position:

- *Cost analysis* - involves analysing the costs of sourcing the manufactured item from the current supplier or doing it in-house. Part of this analysis should involve identifying the major drivers of cost associated with the production process such as labour rates, logistics and delivery costs. For example, where Brexit is creating additional logistics costs in the case of cross-border suppliers, it is important to weigh this up against any increased manufacturing costs from using local suppliers.

- *Benchmarking* - you can use benchmarking to compare the performance of the current supplier with other potential suppliers. Benchmarking complements cost analysis and also involves an assessment of the cost position of the current supplier against suppliers in the supply market for the production process involved.

Internal availability of technical and management expertise

The availability of internal resources such as technical and management expertise in the production process is an important influence on whether to move a process to a supplier in another location or bring the process back in-house.

For example, if you are a Northern Ireland firm that is considering bringing a production process back in-house from a supplier located in the EU, you will have to consider whether you have the required technical and management resource in-house to effectively produce the process at the required cost and performance levels.

You should consider whether allocating resources to internal manufacturing processes is going to strengthen your competitive position. You should be aware that it is not possible for you to invest scarce resource too widely across the business.

You will have to prioritise scarce resource such as labour and finance in processes that improve your competitive position (e.g. new product development and manufacturing) and outsource processes that are not critical to your competitive position (e.g. cleaning and catering).

For example, a firm in the pharmaceutical sector is likely to invest scarce resource in drug design and manufacture, as these drive competitive advantage in the marketplace, rather than in non-critical processes such as cleaning and catering.

Switching costs

Switching costs refer to the costs of switching a process in a number of sourcing contexts For example, switching costs can be an important issue for your firm in a number of Brexit scenarios:

- In a situation where you are considering bringing a process back in-house.
- In a situation where you are considering transferring a process from a global supplier to a local supplier.
- In a situation where you are considering transferring a process from a local supplier to a global supplier.

In these scenarios you should consider the following important indicators of switching costs:

- *Dependency* - refers to the level of customisation you require in the manufacturing process. High switching costs are most likely where your needs are highly customised and the supplier has to adapt to meet these needs. In this instance, these types of processes will be difficult and costly to transfer.

Alternatively, where your needs are standardised and can be easily sourced from a number of suppliers the level of dependency will be low. Therefore, this type of process should be straightforward to switch to another local or international supplier, or even bring back in-house.

- *Uncertainty* - changes in the business environment may mean that it is difficult to write complete contracts, and renegotiation and frequent amendments are required as circumstances change. The presence of high uncertainty in your requirements can lead to the supplier raising prices when any unforeseen changes beyond those required in the contract. For example, where the technology associated with the process and your needs are changing this is likely to increase switching costs.

- *Small number of suppliers* - refers to the number of capable suppliers you have to meet your requirements. The presence of a few suppliers means that you are in a weak position when renewing the contract with the current supplier, and likely to incur additional costs when switching to another supplier. Such conditions make you prone to higher switching costs during the contract and at the time of contract renewal. For example, if you are a Northern Ireland firm you may have to continue sourcing a component from an EU-based supplier despite cost increases, as there are no capable suppliers available in Northern Ireland.