

# *CIPS Position on Brexit*

With Brexit negotiations underway, CIPS have taken a view of areas of impact that are affecting the day to day operations of Procurement and Supply chain specialists.





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## Introduction

This CIPS paper is written for the procurement profession, to highlight areas of interest following the triggering of Article 50 on 29 March 2017. Whilst negotiations are ongoing between the UK government and the European Union, many businesses are unsure about what steps to take to mitigate risks associated with Brexit. However, many businesses are taking steps to prepare themselves for the potential outcomes.

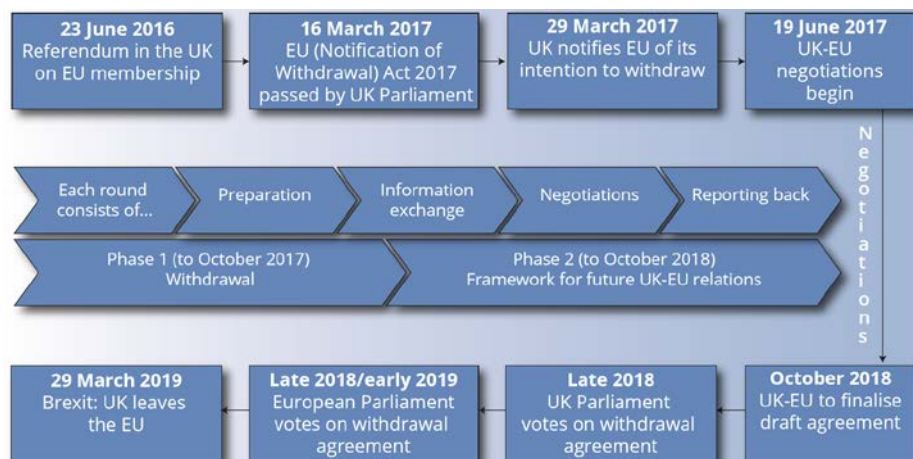
Through engagement with members of the CIPS community, we have been able to draw on discussions and findings that are impacting our members strategic or operational decisions and are points for consideration within the profession. This paper is structured to support findings of initial steps and directions that procurement professionals are taking to mitigate risks. I should like to thank the valuable contributions of our members who have engaged with CIPS to share their views.

## Overview

CIPS has sought to gather information from various sectors to understand challenges that are faced by procurement and supply chain specialists in relation to Brexit. CIPS has reached out to various sectors to understand how they are positioning their Brexit strategy; how much time and resource they are investing in risk analysis and identification of solutions; and which sectors are making steps to formulate their strategy.

## Background for Brexit

With Article 50 having been triggered on the 29 March 2017, this leaves the UK government two years to negotiate and prepare for the day we leave the EU on 29 March 2019.



Source: <https://www.parliament.uk/documents/lords-committees/eu-select/brexit-negotiations/brexit-negotiations-timeline.pdf>



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## Risk Analysis

First steps being taken by over 44% of our Brexit survey respondents, is a risk analysis to identify significant areas of change or cost that could impact the financial turnover and production capacity of their organisation. Further details are referenced below:

### Exchange Rates (ER)

The strength of the GBP against the USD saw a slump following the UK vote to exit the European Union, the exchange rate has not been so low in value against the USD over the last ten years. However, the International Monetary Fund (IMF) and the Bank of England reported that before the referendum the pound may be overvalued by up to 15% in 2015.



ER is possibly the first impact area that many organisations have felt pressure, with over 57% of our survey respondents confirming that currency fluctuations have made overseas supply chains more expensive, with many more finding that supplier relationships have become more strained as both EU and global suppliers are looking to push up costs or change the currency that they trade in.

Source: <http://www.xe.com/currencycharts/?from=USD&to=GBP&view=1Y>

As the cost of finished goods, parts for manufacturing and services procured in GBP see a significant increase on landed cost value, increasingly buyers are working closely with their financial teams to monitor the timing of orders being placed and paid for and renegotiating payment terms to ease some of the challenges.

Where goods or services are being procured in Euro as opposed to Sterling many organisations have reported no significant changes in trading relationships.

### Contract Negotiations

With more procurement professionals reporting challenges they face with securing contracts with a term that extends past March 2019, procurement professionals are looking to identify alternative ways of securing contract agreements that gives flexibility to both parties, with over 32% of our Brexit survey respondents commenting that they are factoring in new clauses that allow for price renegotiation to take into account changes that may come about from currency fluctuations and potential changes to tariff rates.



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## Trade Deals

As the UK government looks to secure new trade deals with countries outside of the EU to support alternative trade routes, Theresa May has been holding talks with the Chinese government with ongoing discussions to open up a free trade agreement (FTA) with the USA.

In addition to new trade agreements, emphasis needs to be placed on historical trade agreements that have come into UK law since first joining the EU. These historical trade agreements influence many of our areas of trade such as fisheries, transport and nuclear.

Wording in many agreements will make reference for trade between USA and the EU for example, once the UK leaves the EU, then the trade agreement will no longer be effective and the UK government may need to seek replacement trade agreements to satisfy trading relationships between (for example) USA and the UK, as opposed to USA and the EU.

This is a significant impact area that could immediately affect the importing and exporting of finished products and parts. Despite opportunities, there are real risks to our economy as the documentation that would allow for products to be shipped in and out of the UK may require adjustment, meaning shipments could be delayed or even halted during transit in extreme cases.

## Import and Export

If we identify further with tariff impact areas, there remains continued concerns regarding the new structures that may be put in place following the second stages of UK exit negotiations.

Procurement professionals could at this stage identify with operating processes for countries that currently sit outside of the EU legislation, how do they operate their tariff structures? The UK may follow a similar structure.

The World Trade Organization ([WTO](#)) agreements that are in effect for Norway, Switzerland and Turkey may be the outcome that the UK achieves so it would be beneficial to build knowledge in this area.

## Tariff and Duty

New tariff and duty rates remain one of the most concerning areas for consideration, whilst the UK has benefitted from free movement of goods from the EU into the UK, this will all be set to change when we officially finalise the Brexit agreement, however, the government are still in discussion with the EU over the possible options available. There will be changes to the transport process, and as with global importing additional documentation/licences may be required for declaration at port leading to additional port clearance times and costs.

Over 25% of respondents to the CIPS Brexit poll advised that they are paying close attention to potential outcomes from the Brexit negotiations as tariff charges could impact their total landed costs for goods brought into the UK.



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This in turn means that a staggering 37% of procurement professionals are now conducting sourcing exercises to identify UK supply sources as an alternative to importing goods, which could bolster the workflow for UK operating plants as demand for their products and services could see a marked increase from UK buyers.

Failure to plan for Brexit will leave a company vulnerable with increased risk exposure.

This will enhance some challenges for procurement teams as organisations may find themselves with limited supply options if they look to delay their chance to re-source within the UK. Businesses could be left at the back of a long queue to build new supplier relationships as increased demand for capacity with UK suppliers could outstrip supply capabilities.

## Recruitment and Workforce

With the identification of potential new legislation requirements for the importing and exporting of goods, along with increased pressures within the procurement team to ensure goods remain available to the production line in a timely fashion, reviewing the skill and resource within the procurement function to ensure that new challenges are managed is critical at the early stages of setting a Brexit strategy for your organisation.

Despite ongoing political and economic uncertainty, and as we move through Brexit proceedings, confidence within the procurement and supply chain market remains stable, with demand high for talented procurement professionals. Equally, as we tackle an unpredictable climate, many organisations are in fact prioritising their procurement team's potential in making sure the changes have limited business impact.

However, procurement is facing an ongoing skills shortage that shows no sign of abating, so employers are urged to act fast to attract talent in order to secure additional support. According to the [CIPS/Hays Procurement Salary Guide & Insights 2018](#), over half of procurement recruiting (56%) faced challenges in finding the right talent with 47% citing lack of sector skills and experience and budget constraints as the main reasons. Looking specifically to the skillsets required, communication/soft skills and negotiation are prioritised across all levels with influencing, communication/soft skills and internal stakeholder management prioritised for senior procurement professionals.

**“Employers are urged to act fast to attract talent.”**

Scott Dance, Hays.

In a profession which can moderate and develop a competitive advantage from the fluctuations of the market, or political changes, these skills are likely to continue to be sought after. Procurement professionals need to adapt to the landscape and become more focussed on strategy and alignment to organisational goals, and most importantly, developing the softer skills needed to understand the implications of Brexit, for example.

With this in mind, many procurement professionals will already be entrenched in predicting and advising on the changes that Brexit will incur, despite no official confirmation of what these will be. As nearly two-thirds (63%) of EU businesses who work with UK suppliers expect



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to move some of their supply chain out of the UK as a result of Brexit according to a survey from the Chartered Institute of Procurement & Supply (CIPS), negotiations with suppliers, navigating currency changes, and ensuring any EU supply connections are strong will be particularly vital for professionals during negotiations.

Taking reflection on the [CIPS/Hays Procurement Salary Guide and Insights 2018](#) the findings identify that there is a 5% increase for interim roles for strategic sourcing exercises, which could be due to a Brexit-related need for supplier re-evaluation in the light of currency and import/export issues.

Furthermore the findings identify that one of the key issues faced in the Charity/Not for Profit sector is the challenge faced around the changing EU procurement regulations.

Sourcing skills, outsourcing/offshoring and insourcing remain significant skill requirements for procurement professionals, with the potential for an increase in demand due to business changes that may be brought about by Brexit.

## **Inventory Management**

A further area of consideration could be focused on inventory management and risk of exposure from over stocking versus the risk of potential stock out situations should shipments of goods and parts become delayed during the Brexit transition, however, consideration of cash flow tie up must also be factored.

There are pros and cons to building your inventory, consideration can be placed around building inventory within your own stores to avoid bottlenecks at the port when new legislation comes into effect, so giving access to parts when required in order to minimise disruption or potential down time to production lines.

Timing plays a critical part in being ready for Brexit, ensuring the shipping of core items are in advance of new legislation coming into effect should minimise risk of port delays. Encourage customers to build inventory level to avoid supply disruption whilst new legislations settle in.

There may be significant cost associated with increases of inventory. This could be driven by a need for additional storage facilities or tighter stock rotation and management, leading to the cost of additional resources required to support this activity.

Whilst there will likely be a cost implication to the customer and pressure on your production team to increase inventory, advance planning should ease workload on production schedules if the increase in demand is smoothed. Proactive thinking will support the working relationship through a turbulent phase.

## **EU versus Local or Global Supply**

If the tariff charges make purchasing product or parts from the EU uncompetitive, there may be an increased push on global and UK sourcing activities, businesses should consider putting dual sourcing plans in place now in order to mitigate supply risks.



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Remain mindful of the rush on demand that may be faced by your UK suppliers if there is an increase in demand as it may mean more customers look to secure their products and services.

With some of our members reflecting on the opportunity to move business outside of the EU, into a global supply market, be mindful of concerns around the quality and conformance to specification to ensure that the goods meet your organisational needs.

Be aware of the increase in work flow and resources required by the sourcing and procurement team to undertake such new sourcing and potentially new contracting activities.

There should be consideration that some EU suppliers may move business away from the UK, but that may be balanced by the demand for products and services from UK customers who are looking to onshore their supply chains.

## **Innovation and the Rise of New Technology**

One positive to the Brexit discussions, could be to consider new opportunities for innovation and technology, whilst reviewing stages of the supply chain process and the procuring of goods from new supply routes.

With the need to change procurement processes, Brexit could offer the opportunity to conduct value analysis or engineering analysis to identify new cost saving opportunities from alternative supply routes or through the engagement of new ideas and technologies that align to your company strategy and vision. This in return could lead to competitive market advantage.

## **Conclusion**

Many of our findings conclude that at this stage of Brexit, procurement professionals are remaining fluid with their strategies, however, there are areas of impact that cannot be waylaid.

Forward planning is critical to weathering the Brexit transition period, by anticipating the possible impact areas that Brexit may have on import restrictions, possible bottlenecks in process and the managing of goods being imported into the UK that support your production process. Keeping close to the political discussions will give competitive advantage regarding the direction of best fit to meet your procurement strategy and overall business needs.

Many of our members have commented that the outlook is not all doom and gloom with some reporting that Brexit is supporting their business growth and presenting “positive exciting times where many opportunities have opened up”, with the additional comments of “increases in exports” and “new business being won on the back of Brexit”.



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Until such time as the government have finalised the negotiations and exited the EU, which is set for Friday 29 March 2019, Brexit negotiations remain a time of ambiguity where flexible and fluid reactions to the possible political outcome can only be supported by proactive and dynamic procurement teams that are paying close attention to the ever changing landscape unfolding before them.

### **Contributions**

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Contributors to the CIPS Brexit surveys  
Malcolm Budd FCIPS - Senior Export Control Manager, Rolls Royce  
Scott Dance - Procurement Director, Hays

### **Reference**

[Prospects for a US-UK Free Trade Agreement](#)  
HMRC  
[Tariff codes](#)



