

# White Paper



## Preparing your Supply Chain for Brexit 5 Key Topics to become Brexit ready

White Paper by  
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# Prepare your supply chain for a hard Brexit

The United Kingdom (UK) formally left the European Union (EU) on March 29, 2019 and at the time of writing this whitepaper it looks likely that, at the end of the transition period in December 2020, the UK will not have secured a trade deal with the EU. As a result, after over two decades of trading based on agreements that allow free movement of labour, goods, services, and capital the UK will start to trade with the EU on World Trading Organization (WTO) rules. According to a recent survey 83% of British manufacturers are preparing for a hard Brexit.

**The post Brexit uncertainty will not be short-lived:** it is likely to persist for a decade or more and will bring volatility and vulnerability to the supply chains of many industries. Switzerland's negotiations with the EU continued for more than a decade, from 1992 to 2004, and resulted in about 20 separate treaties.

To put the challenge into perspective the EU is the UK's largest trading partner, accounting for approximately half of goods imported and exported. Moreover, a significant proportion of the UK's imports from and exports to the EU are in the form of intermediary products—an indicator of the high degree of interconnectedness between UK and EU supply chains.

**Businesses have been preparing their supply chain in readiness for Brexit,** however many have had their plans disrupted by the Coronavirus (COVID-19) which has highlighted some of their supply chain shortfalls and diverted their effort from Brexit planning onto more pressing issues.

For many organisations, the pandemic has exposed their vulnerability, their efficient global low-cost supply chains are complex, opaque and people intensive, making it almost impossible to quickly develop and implement effective disruption mitigation plans. This realisation has highlighted the challenge they face to become Brexit ready.

Whatever the eventual outcome of Brexit, business should see the uncertain future as a prompt to rethink their supply chain strategies and build greater flexibility, resilience, and structural agility into their supply chains.

**In the following we will present five key topics to become "Brexit ready".**



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# Five key topics to become Brexit ready

## Sourcing strategy



## Revisit your footprint



## Demand and inventory strategies



## Visibility and Systems



## Cost to Serve



From Miebach's perspective there are 5 key topics to future proof your supply chain strategy and become "Brexit ready".



### 1. Sourcing strategy

Ensure that your current contracts and supplier relationships are fit for the future and able to provide a reliable supply at competitive costs in a scenario of ongoing European trade negotiation uncertainty.

- Assess the three-way legal impact on contracts, people, and intellectual property.
- What happens if prices and costs fluctuate, exacerbated by the introduction of tariffs, to an extent the increases cannot be passed on and existing contracts are no longer viable?
- How easy is it to renegotiate existing contracts, or leave long standing relationships if you need to?
- What safeguards can you build into new contracts

and supplier relationships to protect against uncertainty? Include safeguards against supply chain risks, changing commodity prices and currency fluctuations.

- Can preferred specialist suppliers be easily replaced? And does this impact decisions on where key activities, like production, are performed?

Explore near-shoring opportunities and develop local suppliers—or the local footprints of international suppliers—consider hedging currency and commodity-price risks and modify contract structures to protect against short- and medium-term risks.

# Do you need to optimise manufacturing and logistics footprints?



## 2. Revisit the footprint

Will your network infrastructure still meet the needs of your business? Do you need to optimise manufacturing and logistics footprints, reconsider the scope and timing of investments, and assess ways to reallocate production? Simulation technologies and advanced analytics tools can work through reams of data, model scenarios to identify the trade-offs involved and make decisions that optimise end-to-end costs.

For many the biggest impact of Brexit will be on lead time and additional administrative costs, have you considered the changes to various legislation in terms of customs clearance and all the additional paperwork needed, additional labelling or updating of technical files?

In the case of a hard Brexit, the number of trucks that need to be checked by customs at the Port of Dover (the main UK gateway for trucked cargo) could increase from 500 to 10,000 per day. Pre-Brexit EU vehicle checks take 2 minutes, checking vehicles from outside the EU takes 20 minutes. Simple maths tells us that an additional 18 minutes per vehicle means that it will take 10 days to process one day's capacity, resulting in

a 162 km queue of vehicles. In simple terms Dover and its hinterland would be overwhelmed.

Longer lead times can significantly affect service levels and margins—especially for goods with short shelf lives. New customs bottlenecks could cause similar issues. How do you make deliveries quickly, or for a specific time, with a border to cross and an associated cost?

- Do you hold stock in the UK and the EU to be able to service them both quickly?
- Are there alternative roll-on roll-off ports to avoid Dover & Calais, there are 120 commercial ports in the UK.
- Are there alternative methods of transport i.e. Short sea containers?
- How will this affect your stock management and warehousing?

By the time you decide you need a new UK warehouse, there could be a shortage of infrastructure capacity available to build it. Taking an option on space or land gives you the chance to move quickly.



# Uncertainty makes demand volatile and supply chains more complex

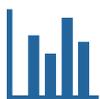


## 3. Demand and inventory strategies

Uncertainty makes demand volatile and supply chains more complex. Companies can reinforce their forecasting capabilities so that they can predict and manage the impact of changes in demand on their volumes. A key focus should be on increasing flexibility—for example through greater use of outsourcing—to cope with greater volatility and uncertainty in demand.

Are your inventory strategies and tactics ready to meet the short-term business continuity challenges and maintain service levels in any Brexit scenario? In the medium term do you need to reassess safety-stock levels to reflect new operating conditions?

In the pharmaceuticals and medical-technology sectors companies are actively considering stockpiling key products. Some have already begun doing so, with significant implications for their working capital and operating costs.



**Are your inventory strategies and tactics ready to meet the short-term business continuity challenges and also maintain service levels?**



## 4. Visibility and Systems

Much about Brexit is uncertain. But analytics can help give businesses early insight into the impact of a range of Brexit scenarios. Early and effective scenario planning combined with analysis of the potential consequences of a post-Brexit economy might even improve your position.

Businesses that have clear visibility of their supply chains can model the impact of emerging customer needs on service, cost, and operational capabilities. Many businesses have only just started the activities needed to create this level of understanding and knowledge of the additional resilience they need. It is likely that Brexit will call for systems to handle more complexity in terms of information held, and frequency of data submission, for customs declarations.

- Consider changes to product flow, to mapping to new supply models, and ensuring all the commodity codes are correctly used and aligned with product master files.
- Understand the new data and processes required to submit import and export declarations, including information about product origin, and understand how this will be captured and made available to support the physical despatch and receipt of goods.
- Are your systems and/or your carriers' systems ready for the new data requirements? A new trading relationship could mean extensive work to reconfigure product master data in IT systems with information such as revised routings or sourcing information, Bill of materials (BOM) and cost data, supplier data, invoicing, tax reporting, dispatch note requirements, customs duty and VAT and shipping costs.

# Modelling the impact on profitability



## 5. Cost to Serve

The potential impact and opportunities of Brexit extends across many aspects of the supply chain that are central to competitiveness and profitability. These changes will range from redesigning the network to reconfiguring systems.

Modelling the impact on profitability of a new customs border between the UK and the EU means new costs, and businesses can predict these costs. A Japanese business with a European distribution centre in the UK, for example, could face duties on goods entering the UK, and more duties when those goods move on to continental Europe. Even in a Free Trade Agreement, duties could still apply.

Is your supply chain footprint optimised to minimise the impact of potential new duties and taxes on imports?

- Are pan-EU distribution models exposed to paying duties more than once? Can you avoid potential additional duty payments by splitting inbound imported products between warehouses in the UK and EU?
- What transaction and administrative costs will apply for your cross-border movements of goods?
- How easy will it be to absorb additional costs?
- Are you ready for the new VAT accounting systems and how will this impact cash flow?

What impact will the new costs have on the cost to serve, price points and competitiveness? Can you absorb the increased cost, or do you need to reconsider your pricing strategies or even the viability of serving the 'new market'?

**If you can answer the questions posed in the five key challenges perhaps you are Brexit ready but are our governments ready for a hard Brexit?**

Miebach Consulting has been successfully designing supply chains since almost 50 years. Contact us if you would like to discuss how to manage your current challenges.



# Miebach Consulting: The Supply Chain Engineers

Miebach Consulting offers international supply chain consulting and engineering services in production and logistics in 24 offices worldwide. Our clients are medium-sized companies as well as corporations that want to improve and expand their competitive position with innovative logistics solutions.

The Miebach Group, founded in Frankfurt in 1973, today has office locations in Europe, Asia as well as North and South America. With over 380 employees, we are one of the leading international consulting companies for logistics and supply chain management. As a result, our clients get what we stand for: Supply Chain Excellence. [www.miebach.com](http://www.miebach.com)

## 2020

- 24 Offices worldwide
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Please contact us if you would like to discuss your current challenges with us.

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