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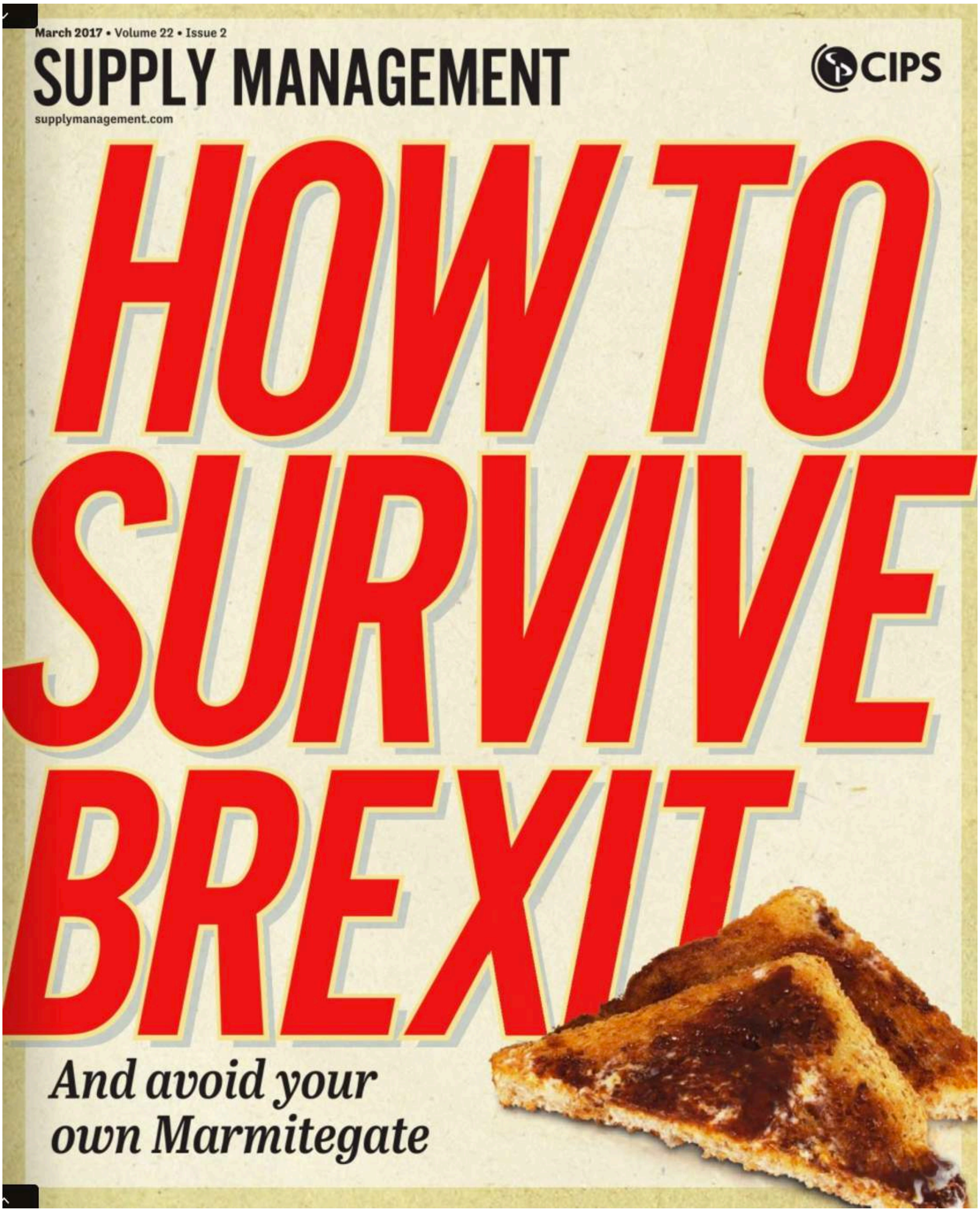

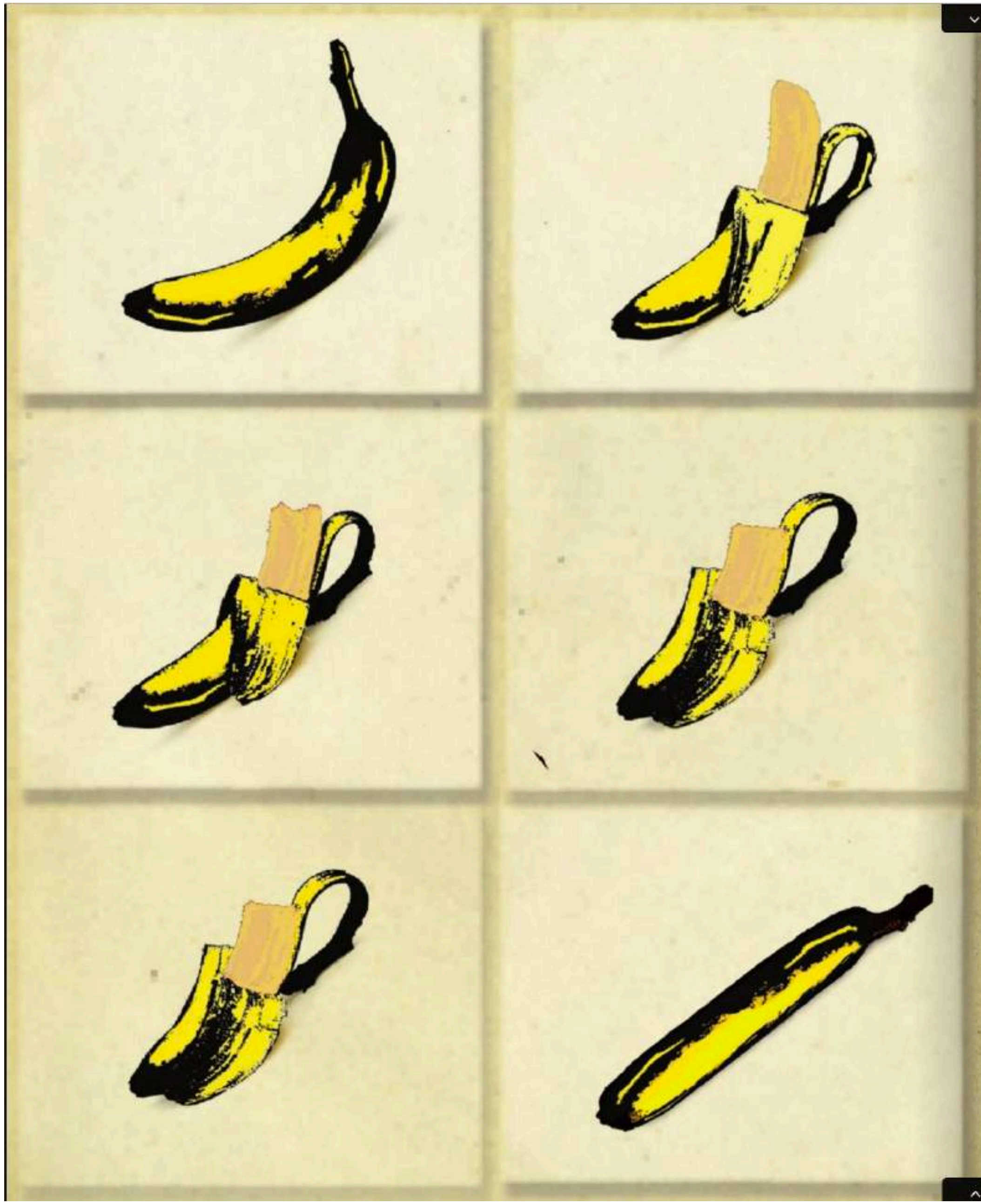

YOUR GUIDE TO STRAIGHTENING OUT BREXIT

(without redesigning bananas)

Straight bananas in her local supermarket. That's what persuaded one British woman, who had been minded to vote Remain, to back Brexit. Speaking as a member of the audience when *BBC Question Time* visited Wallasey, she said: "I'm just sick of the silly rules that come out of Europe." When host David Dimbleby pressed her on whether bananas had really changed shape, she replied: "If you go to Aldi they're a bit bent." Even Eurocrats would concede that the European Union has some "silly rules" but it has never, despite what a strangely▸

WORDS REBECCA ELLINOR TYLER, PAUL SIMPSON, SIMON CREASEY

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May talks Brexit with EU leaders at Maltese summit

resilient popular myth insists, regulated the shape of bananas so, to the likely chagrin of the woman in Wallasey, Brexit will not make bananas any more curvaceous.

CPOs are too savvy to worry about "silly rules" that don't exist – although colleagues elsewhere in the organisation may be peddling their own Brexit myths – what is driving them bananas is the scale of the uncertainty.

Even after the government White Paper, which set out a hard Brexit, removal from a free single market, a new trade deal and tighter immigration control, uncertainties, paradoxes and contradictions abound. To take one example, the Leave campaign complained about Brussels' red tape, yet when Britain does exit the EU, it will convert those rules and regulations into British law. It will be up to future governments to amend or repeal them – and that could take years.

The general feeling of unease, with concerns being raised over everything from reasonably priced cocoa to the future of Britain's nuclear fusion, is itself an economic risk. John Glen, CIPS economist, urges businesses not to talk themselves into recession by, for example, delaying necessary investments. Britain's competitors are already keen to press their advantage, with Wilbur Ross, the new US Secretary for Commerce, calling Brexit a "God-given opportunity" for Britain's rivals.

Whatever happens, once Article 50 of the Lisbon Treaty is triggered, the two-year process of negotiations surrounding the UK's departure from the EU begins. And it's unlikely the UK will either 'have its cake and eat it' (controlled immigration with full access to the single market) or that Brexit will ignite World War III. The UK will probably have left the EU by summer 2019, but what that will mean is the mother of all known unknowns.

What we do know is what we have already witnessed since the referendum result was announced in June: EU citizens, procurement professionals among them, attempting to secure British residency, a weaker pound and Mondelez's decision to remove some Alpine-like chunks from Toblerone to cut costs being hailed as a) "emblematic of the devastating consequences" of Brexit (see box on p20) and b) nothing to do with Brexit and everything to do with – according to an official statement by Mondelez – a 50% surge in the cost of cocoa since 2013.

"Many supply chains crossing the Channel are designed to function within a single market. Breaking that single market could end many of those supply chains"

Buyers have seen prices rise for everything from Marmite to Microsoft but economic indicators have been mixed. Businesses are investing less but construction and manufacturing have grown, buoyed by the devalued pound. The Office of National Statistics estimates that the UK economy grew by 0.7% in the three months to January but consumer confidence, one of the key drivers of growth, is volatile, with more people worried about their personal finances than before the Brexit vote.

So what should procurement and supply chain heads be doing to prepare their businesses? Richard Jesson, CPO at Aston Martin Lagonda, advises buyers: "Keep calm. Reduce risk and seek to understand where you are going to be in the next year."

Milan Panchmatia, managing partner at procurement consultancy 4C Associates, outlines some of the issues in detail: "With the White Paper setting out a hard Brexit, procurement buyers will need shrewd contingency and risk planning. Many of the existing supply chains crossing the Channel are designed to function within a single market. Breaking that single market could end many of these supply chains. As a result, companies in Europe and the UK may look to new suppliers. It is possible that British exports to the EU will be penalised in some form – especially in the financial sector. The impact could be huge, as service sector exports account for 4.5% of the UK's GDP.

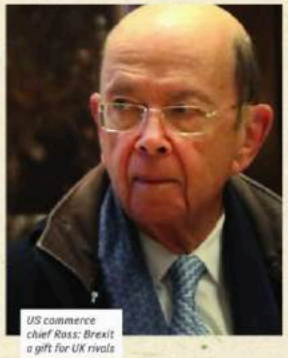
"Contingency planning to minimise the risk of a break in the supply chain is now the biggest priority for many organisations. Businesses that invest in planning, risk modelling and future proofing supply chains can gain a competitive advantage. The challenge is not to invest too many resources in developing contingency plans for situations that may not arise."

"From a pure procurement point of view," says Fabienne Lesbros, chief procurement officer at the Cooperative Group, "our focus is about horizon-scanning on the one hand, but clear communication about the here-and-now so that we maintain a sense of immediate business-as-usual, internally and with our supplier base." She lists some of the long list of areas that require broad thinking: impact on current and future contracts; sourcing locations in the supply chain; logistics; financial risk for suppliers receiving EU grants or funding; currency fluctuations; activities reliant on EU labour. Remember, this is a company that has a focus on the UK's local communities.

For UK plc, the magnitude, complexity and variety of risk presented by Brexit is unprecedented. Matthew Sutton, partner at law firm Shakespeare Martineau, says: "A Brexit audit can help organisations assess all areas of their business to ensure the business is positioned to capitalise on the market post-Brexit." That audit should, Sutton says, focus on how tariffs can affect relationships in your supply chain, the long-term impact of a devalued pound and, depending on how many foreign nationals are in your labour force, the likelihood of skill shortages.

Birds Eye has asked retailers for a price rise

Is 'Marmitegate' row a taste of conflicts to come?



US commerce chief Ross: Brexit a gift for UK rivals

Bentley is British but some of its parts are not

Many procurement bosses are preparing – or submitting – such assessments, but as one CPO told *SM*, the question for others was: "Who is accountable for undertaking such an assessment? How many CPOs are prepared and understand the level of risk within their organisation: who owns the policies, who are the policy controllers and who gives assurance?"

"Brexit falls into a number of categories: financial risk (consumer and retail price indices, import/export duties/tariffs, hedging, currency exchange), personnel (legislation, immigration, free movement and so forth). Who owns policies for these areas, who is tracking exposure and who mitigates? Is the board able to get this view and, if so, who from – the chief risk officer or the CPO?" he asks.

The outlook for the UK's automotive industry gives an idea of the complexities Brexit creates. If there is no comprehensive trade deal with the EU, and the UK exports and imports under World Trade Organisation rules, British car manufacturers could face tariffs as high as 10% to access the European single market, which accounts for 57% of its exports, not great for a sector that supplies 4% of this country's GDP and employs more than 700,000 people. Yet other analysts suggest that, with a weak pound and lower labour costs, British car brands could be more competitive outside the EU than within.

British car brands import 60% of the parts for their cars, mainly from Europe. Although we continue to talk blithely about imports and exports as if they are completely distinct, it isn't always that simple. For example, to take a topical example from the other side of the Atlantic, many of the components used to make cars in Mexico are American components – and some of them cross the border six to eight times during the assembly process. The Wilson Center, a Washington think tank, estimates that 40% of Mexico's exports to the US were created with components that were 'made in America'. Often what we loosely define as exports or imports are simply stages in a much bigger supply chain.

When trying to assess the effect of Brexit, generalising across industries can be dangerous. In fashion, for example, Burberry's Britishness has long been integral to its brand and, with 85% of its sales abroad, the money it makes in yen, dollars and euros is worth more back in the UK. The costs of its UK head office will have fallen for the same reason. It may benefit further if Asian shoppers come bargain hunting in the UK. In stark contrast, Next recently warned that cost pressures – including the falling pound – could hit its annual profits by up to 14% and is mulling over a 5% hike in prices in 2017.

CBI's report, *Making a Success of Brexit*, examined 18 sectors to assess concerns. It found that in manufacturing 57.5% of exports are to the EU and depend on complex integrated supply chains that extend across the EU. The housing and real estate sector is concerned about public procurement rules and EU financial services regulation. Professional services firms fear that if the UK does not gain preferential treatment within the EU they could be excluded from European public procurement procedures. In the financial sector, rumours about staff and offices moving to Europe – particularly Paris and Frankfurt – circulate regularly, and are denied just as regularly.

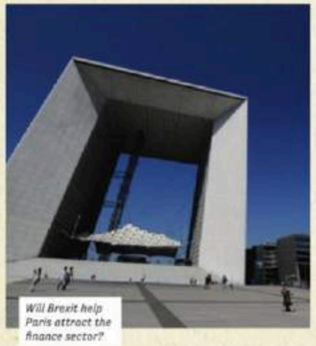
Drilling down on such uncertainties can help procurement, with other stakeholders, develop various scenarios to understand Brexit's likely impact on the business. Procurement has an opportunity to be in the driving seat," says Richard Masser, former CIPS president and a business owner who has already seen his company impacted by Brexit. "In the face of uncertainty keep focused on what you do well and talk to clients and ▶

BE PREPARED

Brexit will be a bit easier to handle if you...

- Stay calm, keep focused, and don't rush to judgement
- Manage currency risk
- Model different scenarios for access to the European market post-Brexit
- Collaborate with suppliers
- Engage internal stakeholders
- Assess likely skills shortages
- Map out opportunities and challenges
- Scan horizon for change
- Have an informed view – and express it clearly

Stefan Rousseau; Pictures Ltd/Corbis; Ben Stansall; Spencer Platt/AFP/Getty Images, Stuart G W Price/Bentley Motors



Will Brexit help Paris attract the finance sector?

IT prices are up 12%. Apple Macs cost £500 more

Pogba's fee is same as United's Brexit debt rise

British farms are safe until 2020, but what then?

stakeholders. Don't just revert back to your roots and just look at costs, that would be the wrong thing to do."

Whatever scenarios are developed, they will keep evolving as the UK's complex divorce from the EU is finalised. "The landscape of change will mean keeping a much closer eye on procurement categories," says Panchmatia. Start planning early, he advises, but work on over-arching principles that can be refined as the situation becomes clearer – or you may need to start again. "It's a matter of putting the building blocks in place now and having a team ready for detailed planning later on."

"Facing this continuing degree of uncertainty, organisations need to have contingency plans in place for multiple scenarios," says Stewart Kelly, associate at business planning consultancy Oliver Wight EAME. "Using risk management assessment processes, data analysis tools and modelling variables, organisations can identify crucial factors for informed decision-making. By accounting for varying possibilities, businesses will be equipped to tackle issues more effectively and they can gain an advantage over their less-prepared competitors. Flexibility, agility and efficiency in supply chain will become ever more important in a post-Brexit world."

Currency fluctuations, for example, are likely to bedevil companies even after Brexit, prompting one procurement director in the food and retail sector to lament: "Nothing is stable, currency touches every category we work in."

Scottish shortbread maker Bill Dean recently warned he would have to lay off staff or raise prices due to a 75% increase in the cost of butter, caused by a weak pound and volatile commodity markets. Even large companies can be caught out: Manchester United recently blamed Brexit, and a strong dollar, for an £87m rise in debt – roughly what they paid for their club-record signing Paul Pogba.

"We are not rushing into decisions," says Lesbros at the Co-op. "Most important is that we continue to develop our capability as a team: ready to work at pace and flexibly, ever-mindful of the long term above short-term expediency."

Yet some companies are acting. With Britain importing around 40% of its food and drink – either in terms of products or ingredients – this sector looks especially vulnerable. Mondelez's decision to shrink its Toblerone – the 400g bar to 360g and the 170g bar to 150g – upset tabloids, headline-hungry MPs and consumers. Mars got off comparatively lightly with its own exercise in 'shrinkflation' – reducing the amount of chocolate in a typical pouch of Maltesers by 15%.

The most significant conflict so far is 'Marmitegate', a Mexican stand-off over pricing between Tesco and Unilever that temporarily led to the love-it-or-hate-it spread being removed from the supermarket's online store. The row pointed to dark times just around the corner as the irresistible force of manufacturers' rising costs meets the immovable object of retailers' determination, in the midst of a price war, not to increase costs for shoppers. It's not clear which party blinked in this confrontation but the fact that the dispute was so public suggests that British shoppers are likely to have more significant worries as Brexit looms than bendy bananas.

The prospects for farmers are even more uncertain. British farmers have been assured that their EU subsidies will be matched until 2020 by the British government but no promises have been made after that. With no subsidies at all, analysts fear that 90% of British farms could fail.

The volatility in food and drink is extreme but other sectors – especially those with low profit margins – are facing painful new realities. In IT, as one expert puts it, the equation is simple: "Every time the pound goes down against the dollar, IT prices go up." Beacon Purchasing, one of the UK's largest buyers of goods, reports a 250% surge in price increase notifications across the economy as a whole, with many much higher than the current inflation rate of 1.8%.

Yet such pressure may provide the stimulus for companies to radically rethink their supply chains, giving procurement the chance to exert influence. A recent study by Expense Reduction Analysts (ERA) showed that a quarter of the 278 procurement chiefs surveyed said they expected Brexit to increase their influence within their organisations, giving the profession the chance to definitively prove its value, by proactively managing costs and suppliers to mitigate the impact of fluctuating currency values and customer demand.

A shock of this magnitude should encourage organisations to think afresh, source new suppliers, buy more adroitly and redesign processes. The new complexities of tariffs, bureaucracy and logistics will all have to be managed. New markets are waiting to be accessed.

It's only possible to make a difference if you have a voice – and that voice is heard. Procurement consultant Richard Russill says: "Predicting the future is a risky business. The next best thing is to excel at dealing with whatever the future throws at you. This ability to 'handle the unexpected' will distinguish winners from losers, and the DNA of high-performance procurement contains the necessary source code.

"Procurement knows how to play a direct role in propelling a company towards profitable survival in uncertain times but will only succeed if it is poised for that role and articulates it in a compelling way. It's either that, or to let procurement's fortunes freeze in functional permafrost as artificial intelligence takes over."

Procurement deals with complex realities, not simplistic solutions, and needs to advise CEOs who can easily forget, as Kelly at Oliver Wight puts it: "Ambiguity surrounds Brexit, but one thing is clear – it's going to get complicated." SM

"Procurement knows how to propel companies to profit in uncertain times. It can only succeed if it articulates that in a compelling way"

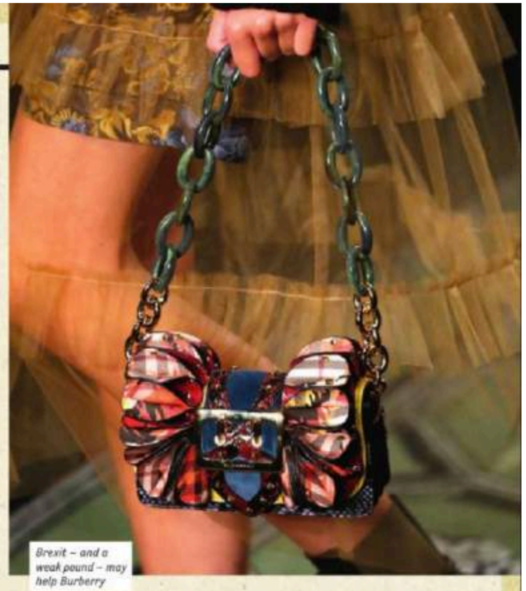
DON'T MENTION BREXIT

"Parliament notes with concern Mondelez International's recent decision to widen the gaps between the segments of the iconic Swiss chocolate bar, Toblerone, in the UK; understands that this was made in order to allay rising costs for numerous ingredients; believes that this is emblematic of the devastating consequences that Brexit could bring."

Colin Beattie, the SNP member of the Scottish parliament for Midlothian North and Musselburgh, was much criticised for proposing this motion, which some journalists derided as his first decisive intervention at Holyrood since he was elected in 2011. Yet if nothing else, Beattie's action acted as a salutary warning for other household brands who were thinking of reacting to rising costs in a similarly dramatic fashion. Mondelez's defence – that we're not blaming Brexit but rising cocoa costs and, OK if you're going to twist our arm, a weak pound – failed to impress irate consumers who felt that in putting more air and less chocolate into a Toblerone bar, the company was messing with the essence of the brand.

Yet other companies have pursued Mondelez's 'shrinkflation' strategy. Industry analysts hint that other chocolate brands are, despite the outrage and parliamentary motions, studying whether to follow suit. Juice maker Tropicana was investigated by the *Sun* after shrinking its family sized 1.75 litre carton to 1.6 litres, an 8.5% reduction, while keeping the £3.50 price. Danone has also shrunk its Activia Pot from 500g to 450g while still charging £1.40.

A simple price rise – as Cadbury, also a subsidiary of Mondelez, recently announced on Dairy Milk Freddo bars – would have stopped Toblerone buyers from getting aerated. Whatever strategy brands adopt to cope with cost rises and falls in the pound, they should, if they want to avoid a political storm, never, ever, blame Brexit.



Brexit – and a weak pound – may help Burberry

JOHN GLEN, CIPS ECONOMIST OFFERS SOME BREXIT GUIDANCE

How to prepare for removal from the single European market

Most obviously procurement professionals will need to consider the complexity of their supply chain. What is their exposure to EU suppliers and what would be the impact of Brexit on the cost and complexity of transacting with EU suppliers.

Cost will be impacted by movement in the euro/GBP exchange rate. At the moment, the uncertainty and absence of a plan surrounding Brexit has caused GBP to depreciate against the euro increasing the cost of procurement from the EU. Estimating movements in exchange rates going forward is a 'high-risk art', therefore hedging strategies are going to be vital. The second impact on costs will derive from new tariffs applicable to UK exports into the EU, my best guess would be to plan on the basis that these tariffs are applied at current World Trade Organisation (WTO) rates. That is, plan on the basis of the worst case and you will not be disappointed. The final cost that will be incurred by UK exports to the EU will be due to changes in the regulatory environment. The best case scenario would be that the regulatory environment remains unchanged.

The post-Brexit industrial plan

This will in theory see the government 'picking winning sectors' that it will seek to support. At the moment the suggestion is that those sectors will be life sciences, low-carbon-emission vehicles, industrial digitalisation, the creative sector and nuclear industry. These sectors are likely to receive incentives to increase innovation and develop employee skills. Ignoring the fact that this implies that government has the capability to decide which sectors are likely to be winners, in an increasingly protectionist post-Brexit, Trump world, any state support that is deemed to be anti-competitive is in danger of provoking retaliatory action from the EU. That said, any support to increase the systemic competitiveness of the UK economy and its trading capability will be essential post-Brexit.

Start to plan for the two-year removal from Europe once Article 50 is triggered

My advice would be to plan on the basis of a hard Brexit, which would mean no preferential access to the single market or the customs union. WTO tariffs will be applied and existing EU regulations will be transferred into UK law and potentially amended on a piecemeal basis over an extended period of time. I would also expect customs procedures to be similar to those which are imposed upon other non-EU trade partners and plan accordingly.

On the basis that the secret of happiness is low expectation, plan for the worst case scenario and if it fails to materialise you should be in good shape to take advantage of a more accommodating post-Brexit environment.

It is absolutely vital that UK plc does not panic with regard to the additional uncertainty that Brexit will introduce into our macroeconomic environment. The performance of the UK economy after the EU referendum has been driven by increasingly leveraged British consumers – it is difficult to see this continuing in the medium term.

The behaviour of UK private sector investment in the next two years will be a key determinant of UK growth (GDP). At the moment that investment has declined and is showing little signs of growing back to the levels that we enjoyed at the end of 2015.

In relation to the UK's export performance we need to continue looking for new export markets outside the EU. That said, the suggestion that British producers have not being doing this pre-Brexit is patently absurd. What we will have to be aware of are the opportunities that may arise due to our ability to negotiate new trade deals, once freed from any constraints imposed upon us by membership of the EU, and to ensure that we expedite these.