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WHITEPAPER

How are UK Supply Chains Coping in the Post-Brexit Era?

Introduction

Back in 2016, the UK shocked Europe – and indeed, the world – after announcing the result of its referendum that had asked UK voters: should the United Kingdom remain a member of the European Union or leave the European Union?

But even before the leave verdict had been delivered, trade uncertainty began to sweep across the UK. Persisting right up until the moment the nation officially left the EU on 31 January 2020, and beyond, ten rounds of intense negotiations would follow before the EU-UK Trade and Co-operation Agreement (TCA) finally came into provisional effect on 31 December 2020.

However, this was far from the perfect solution. Because, despite being better than a no deal scenario with trade remaining tariff-free, it wasn't simple – and the agreement failed to rectify the significant regulatory, logistical and administrative barriers to trade. This resulted in firms, particularly small- to medium-sized businesses (SMBs), feeling the squeeze of the non-tariff barriers.

So, more than a year after the end of the Brexit transition period and introduction of the TCA, how are UK businesses faring? To find out, we analysed our own Dun & Bradstreet data and data from the Office of National Statistics, complete with a look at the steps businesses can take to mitigate the impact of Brexit on UK supply chains.

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Dun & Bradstreet

Size & Industry Matters When It Comes to Supply Chain Adjustments

BREXIT'S BIG IMPACT ON SMALL BUSINESS

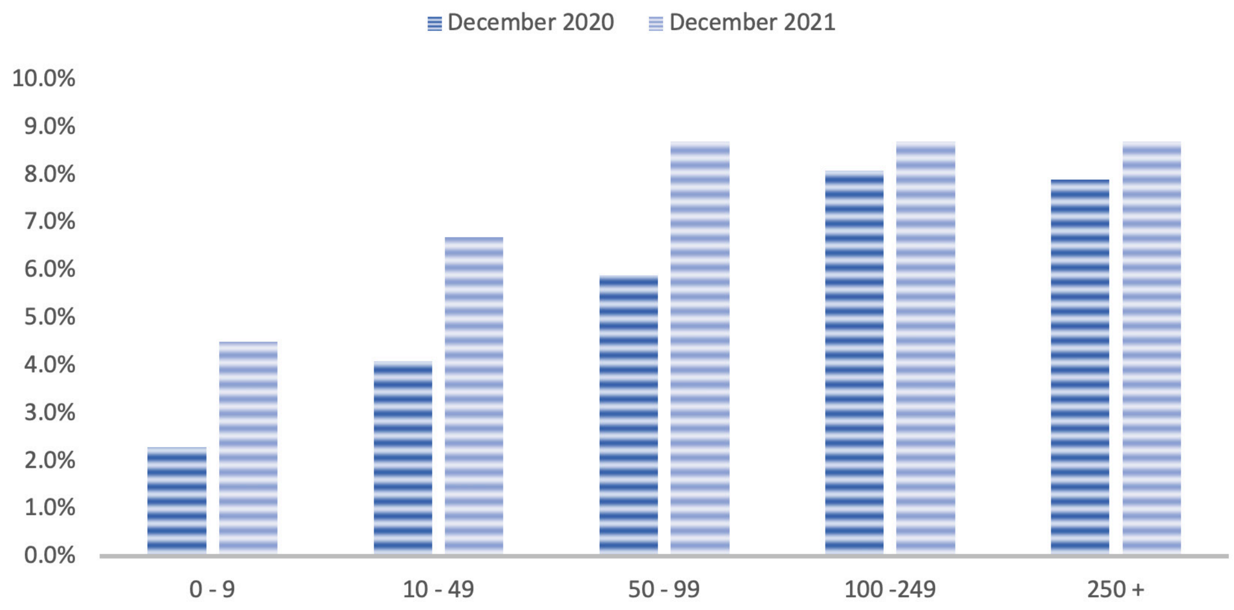
Given the UK's historic dependence on exports and imports to and from the European Union, it'll come as no surprise to hear that before Brexit, large firms were significantly more likely to have supply chain adjustment plans in place. But what might come as a surprise is the seemingly laissez-faire approach to supply chain adjustments embraced by SMBs (Chart 1).

Such is the disparity between small businesses and larger enterprises that by the end of the Brexit transition period, only 6.5% of UK firms had plans to adjust supply chains. Of these, businesses with more than 100 employees were twice as likely to adjust supply chains than those with 10-49 employees and four times more likely to act than those with 0-9 employees.

Reasons for this vary, but this difference in expectations across firms is almost certainly synonymous with their size. For example, on the one hand, larger firms will be more exposed to international markets, while on the other, SMBs may lack the physical (time and personnel) and fiscal resources to invest in future planning.

Fast-forward to December 2021, however, and the attitude is very different amongst SMBs, with a significant proportion reporting that they'd made changes to supply chains. Perhaps indicating how, for smaller businesses, changes were far more reactive than their larger, more proactive counterparts, who adjusted supply chains almost exactly in line with expectations.

CHART 1. Supply chains in Brexit times: plans vs. implementation – share of firms, by size of firms



Source: ONS BICS data

Note: Share of firms currently trading.

Questions asked:

- (December 2020) Is your business intending to make changes to supply chains in preparation for the end of the EU transition period?
- (December 2021) Has your business made changes to supply chains due to the end of the EU transition period?

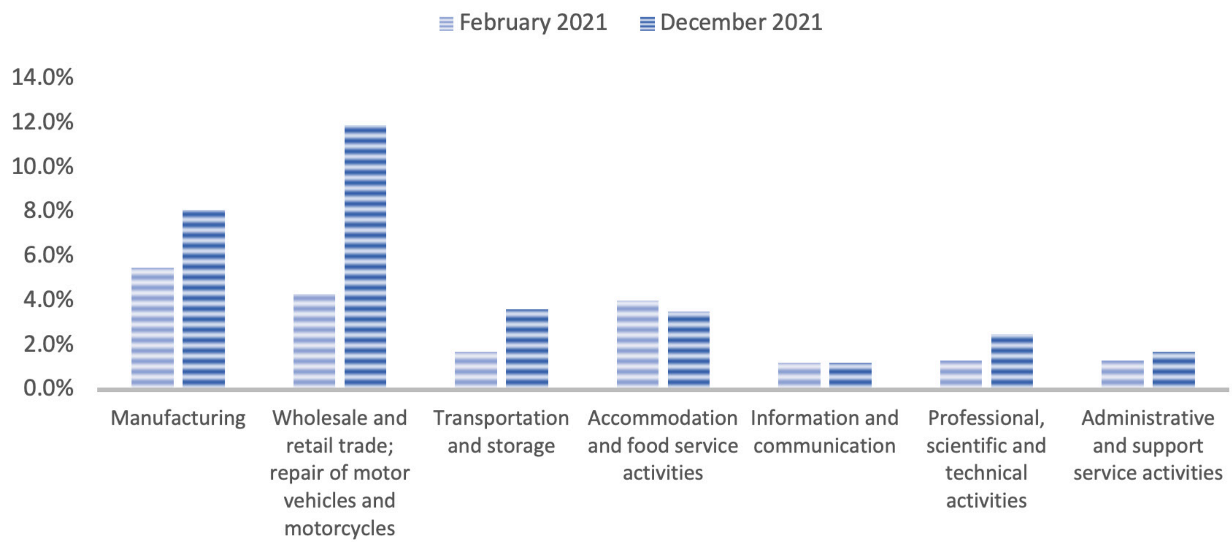
SPOTLIGHT ON INDUSTRY: WHO WAS HIT THE HARDEST?

Trade is the backbone of so much business globally. But of course, some verticals rely on it more than others. So, it's unsurprising to see that more tradable sectors – those dependent on imports and exports – had plans to adjust supply chains before Brexit, with the highest shares seen in manufacturing (5.5%), wholesale and retail (4.3%), and hospitality (4%) (Chart 2).

Unfortunately, planning didn't necessarily result in preparedness. And over the course of 2021, supply chains in manufacturing (9%) and wholesale and retail (11.5%) were adjusted much more than firms were expecting. The TCA is a likely reason for this, as although it prevented the burden of tariffs, it was no substitute for free trade and gave rise to the red tape that disrupted EU-UK trade flows.

Beyond simply impacting their own industries, given manufacturing and wholesale and retail's position as nodal sectors in the economy, supply chain adjustments will also have had a knock-on effect across the UK. At the other end of the spectrum, it's interesting (and surprising) to see that hospitality was the only industry to make fewer supply chain changes than anticipated.

CHART 2. Supply chains in Brexit times: plans vs. implementation – share of firms, by sector



Source: ONS BICS data

Note: Share of firms currently trading.

Questions asked:

- (February 2021) Is your business intending to make changes to supply chains in preparation for the end of the EU transition period?
- (December 2021) Has your business made changes to supply chains due to the end of the EU transition period?

The Road to Supply Chain Resilience

TO DIVERSIFY, OR NOT TO DIVERSIFY. THAT IS THE QUESTION

In response to the disruption that would inevitably ensue after the end of the EU transition period, businesses of all sizes knew they had to become more resilient. To this end, they had two main options: re-design supply chains to be closer to home (nearshoring) or broaden their network of suppliers.

During pre-transition planning, small businesses in particular opted to embrace nearshoring over a diversity in suppliers (Charts 3A and 3B). Larger firms, while still favouring nearshoring, planned to become more resilient via a combination of the two strategies. However, as we can see from the data, this would all change by December 2021.

Businesses across the board undoubtedly underestimated the need to diversify, with the share of firms with 0-9 employees that adopted supply diversification being 1.5 times larger than those that had seen it as a possibility in 2020. The same share was 98% higher for 10-49 firms, 83% higher for 50-99 firms and 66% higher for 250+ firms. The smallest positive deviation from expectation was seen in the 100-249 size bracket at 8.6%.

So, what does this mean for the future of supply chains? Despite data showing a preference for nearshoring, the importance of supplier diversity cannot be underestimated – and this is far from the beginning of a deglobalisation era. Promisingly, it also points to the fact that businesses large and small are hedging their bets against supply chain risks and refusing to put all their eggs in one basket.

CHART 3A. Using more UK suppliers: plan vs implementation, by size of firms

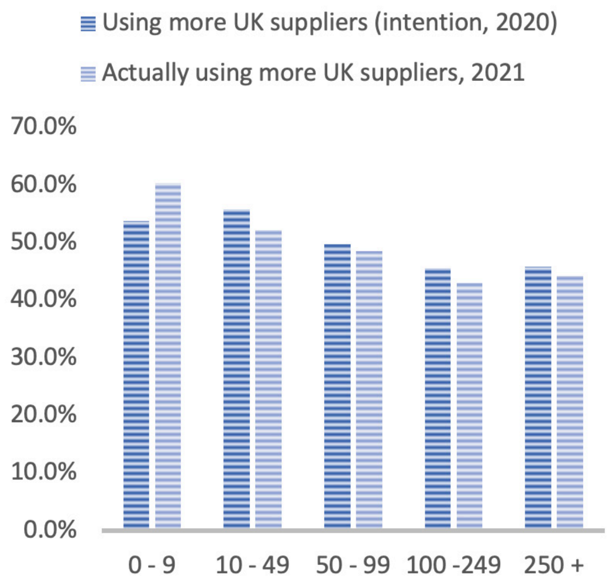
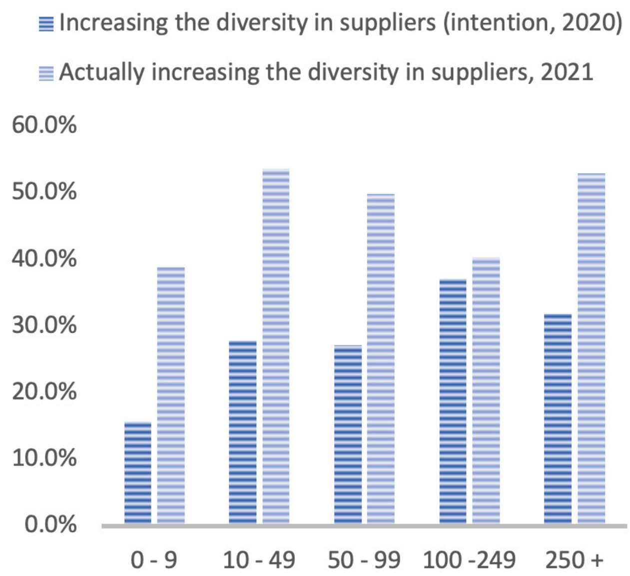


CHART 3B. Increase diversity of suppliers: plan vs implementation, by size of firms



Source: ONS BICS data

Note: Share of firms currently trading.

Questions asked:

- (December 2020)) In which of the following ways is your business planning to change supply chains in preparation for the end of the EU transition period?
- (December 2021) In which of the following ways has your business changed supply chains due to the end of the EU transition period?

DATA: THE KEY TO UNLOCKING GREATER RESILIENCE

Data is undoubtedly one of the buzzwords of the 21st century – for good reason. It's now the driving force of economies, fuelling innovation in businesses large and small, which is reflected in the growing appetite for data. But it can also be the key to unlocking greater resilience, with its ability to help firms predict the unpredictable and be prepared for supply chain disruption.

In an already fragmented supply chain landscape, the unprecedented two-fold threat of Brexit and COVID-19 further increased supply chains complexity. Even now, the full extent of this disruption remains to be seen, so it's clear that building resilient supply chains will require firms to assess risk at different stages of the chain, across multiple dimensions.

Herein lies the invaluable role of data, with the granular and timely insights it delivers proving pivotal to establishing more resilient supply chains and a competitive advantage. Positively, firms tend to agree, with Dun & Bradstreet's The Future of Data Report revealing how a majority (67%) of UK business leaders understand how data is an integral part of supply chain monitoring – and their future success.

ANALYSING RISK IN A NEW ERA OF BUSINESS

Since the turn of the decade, the global business landscape has changed beyond recognition (as we've established). So, it seems logical that UK firms have intensified their enquiries into foreign markets (Charts 5A and 5B), clearly hinting at the intentions of firms to mitigate risk, accelerate due diligence and avoid any supply chain disruption.

Overall, the number of enquiries Dun & Bradstreet received from UK firms into overseas businesses was 100% higher in January 2021 than January 2020. Over the course of 2021, despite seeing a slightly declining trend, the number of enquiries remained well above the pre-2021 figure. The trend is remarkably similar across EU and non-EU markets and not unique to the UK, suggesting that Brexit motives were not the only drivers behind the quest for data, potentially owing to the global impact of COVID-19.

CHART 5A. Total business enquiries from UK firms into all foreign markets

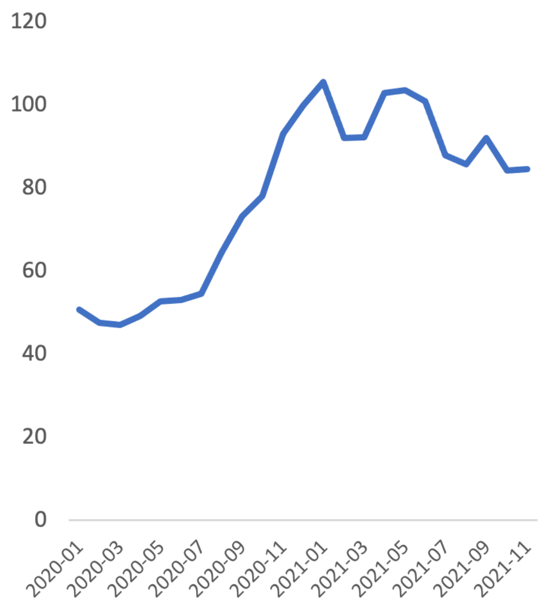
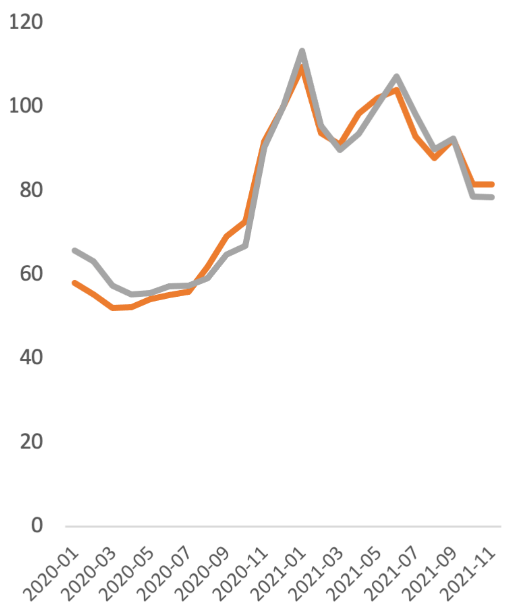


CHART 5B. Total business enquiries from UK firms into EU and non-EU markets



Source: Dun & Bradstreet data. Quarterly rolling averages. Base month is December 2020.

Rethinking Supply Chains for a More Resilient Future

Brexit has posed major uncertainty for the supply chains of companies operating in the UK. In many instances, it's been more impactful than firms (of all sizes) had initially been prepared for. And this, combined with the already high levels of uncertainty caused by global geopolitical and economic trends and the extreme disruption of COVID-19, has continued to place intense pressure on supply chains.

However, for all the disruption, businesses have shown remarkable resilience and resourcefulness to navigate this tumultuous business landscape, cleverly employing the use of different supply chain strategies and data to be as prepared as possible for whatever has come their way.

But of course, the road ahead won't be without its obstacles – and continuing to chart a clear course beyond recovery and into growth will require the ongoing use of data to mitigate risk and seize opportunities. Below are a few essential steps to help you embrace a multidimensional approach to minimise supply chain risk:

STRATEGISE: Hope for the Best and Prepare for the Worst

Develop a risk-based assessment process to identify and monitor a variety of risks that could impact the functioning of your supply chain. Structure an agile network of suppliers that facilitates adaption to shocks.

MONITOR: Keep a Close Eye on Supply Chains (Both Near and Far)

Establish a comprehensive view of supply chains to monitor any associated risks with suppliers across different stages of the supply chain. Proactive supplier monitoring, powered by AI, can be an invaluable asset to your business.

INVEST TIME AND ENERGY TO GET THE RIGHT DATA

Disparate systems and different data from distributed teams and suppliers can be the downfall of any business. Invest in the right data – and the right technology and partners – that can help you make sense of it, to benefit from greater transparency into supplier networks and the insights needed to make informed decisions.

Dun & Bradstreet provides list services on over 170 million businesses, powered by our data records on over 455 million businesses around the globe. Dun & Bradstreet data is used by 90% of Fortune 500 companies, and its credit scores are globally recognised and respected.

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