

SUPPLY CHAIN

The Russia/Ukraine conflict, associated sanctions on Russia, and lingering Brexit fallout are all affecting supplies of raw materials and are piling pressure on supply chains. Add to that shipping delays, staffing challenges, hikes in energy and fuel prices and rising inflation, and it is understandable that we are seeing significant supply chain stress.

Cumulatively, a series of minor disruptions can exert significant pressure. Failure to spot the weakest links in the chain could have a significant impact, ranging from the headache of labelling challenges where ingredients are missing or changing at short notice to significant reputational risk and/or potentially crippling financial loss.

Identifying the Risk

Every supply chain is different. A mapping process can identify risk areas, assess the likelihood and potential impact of identified pinch points, and allow you to develop contingency plans for worst-case scenarios. Look out for:

- **Signs of supplier stress** – Has a key supplier failed to deliver on time or has quality declined? (See “How to Stress Test Your Supplier”)
- **Sole suppliers and limited alternatives** – Do you have a sole supplier arrangement or are you too reliant on a key supplier? Have you looked for viable alternatives?
- **Contract review** – Do your supply contracts robustly protect you in the event of supplier failure? Can you terminate if you need to, or renegotiate price or other terms? (See “Key Contractual Protections” below)
- **Geopolitical issues** – What connections does your supplier (and its suppliers) have to Russia, Belarus or Ukraine? Examine the materials and components you receive from your suppliers to identify links in the chain that may suffer from trade blacklists, the imposition of or increases in tariffs, blacklisting and other trade restrictions.
- **Import/Export challenges** – Be aware of factors such as tax and duties increases, delays at borders, changes in VAT registrations and other tax requirements, changes in customs practices and changes to product certification and registration regimes.
- **Compliance risks** – Do you monitor counterparties’ IT, data protection, anti-bribery and corruption (ABC) compliance and their product safety history to mitigate the risk of fines for non-compliance and expensive product recalls? Do you look out for potential environmental, social and governance (ESG) issues to avoid reputational damage?

How to Stress Test Your Supplier

Be vigilant for any early warning signs and changes in behaviour:

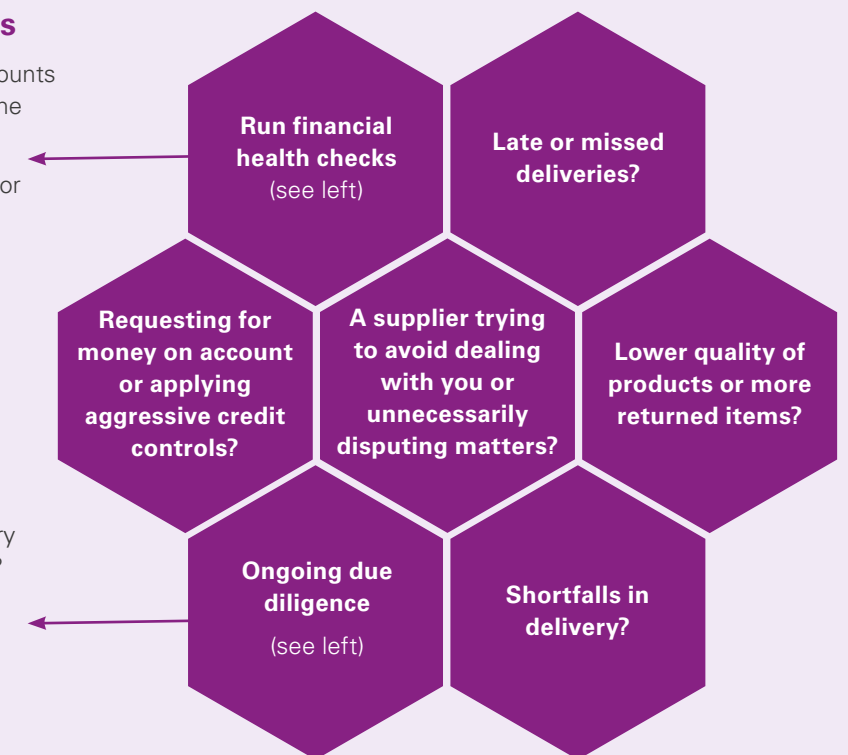
Regularly Conduct Credit Checks

- Review public financial information: Are accounts being filed late? Is the financial position of the supplier worsening?
- Check Companies House and *The Gazette* for the appointment of insolvency practitioners
- Monitor news/social media reports



Ongoing Due Diligence

- Do staff shortages and reliance on temporary labour mean shortfalls in training standards?
- Are there empty shelves?
- Focus on safety culture and compliance record, ingredient/component quality and safety risks.
- Check for potential human rights violations or environmental breaches.



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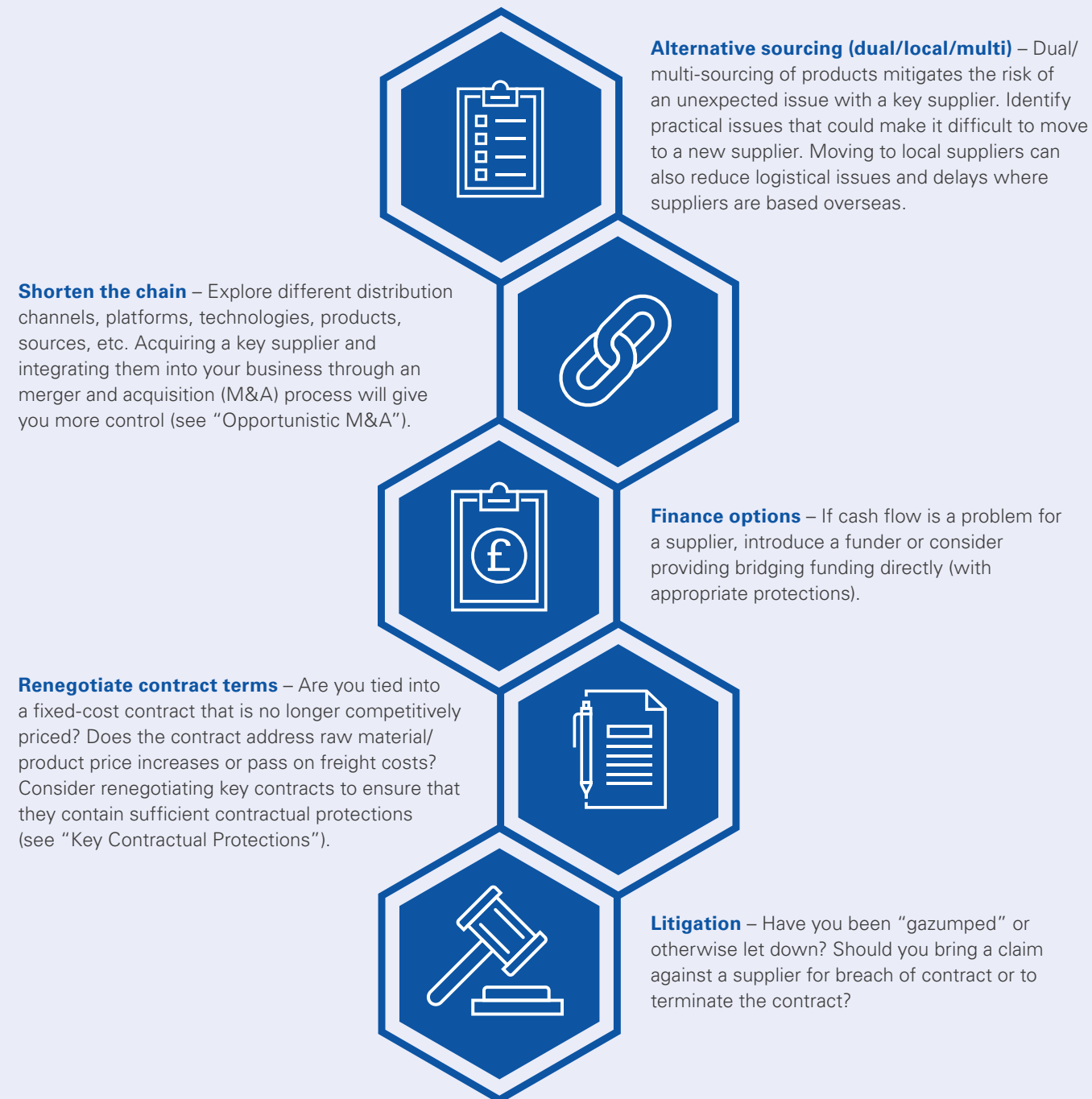
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Mitigating Risks and Managing Supply Chain Stress

Be proactive, rather than reactive. You can de-risk a threat before it occurs or manage the risk with the least damage (financial or reputational) to your business:



Key Contractual Protections

- **Termination** – Ensure provisions are robust and can be enforced at the earliest opportunity. Have exit plans in place.
- **Insolvency** – Ensure that insolvency provisions are up to date, appropriate for the jurisdiction and take effect early enough in the insolvency process.
- **Retention of title** – Be aware of any such provisions and assess their likely effectiveness.
- **Payment terms** – Can these be flexed to support a stressed supplier or improved to support your business?
- **Price increases** – Do the terms address how price/cost increases and how the impact of currency fluctuations can be mitigated and/or shared?
- **Specific issues** – Do you need to address specific identified issues (e.g. delays, materials/staffing shortages, travel restrictions and costs).
- **Tariffs** – Who will bear the cost of any new duties/tariffs imposed and associated additional administrative and logistical costs? Delivery terms (e.g. EXW, c.f. or DDP) may take on added importance.
- **Sanctions** – Assess risks of the blacklisting of companies and other trade restrictions. Can arrangements that become unlawful be terminated?
- **Financial health protections** – Ensure contracts are signed with the group company against whom financial due diligence has been performed and seek parent company guarantees, where appropriate.
- **Compliance and processes** – Include protections on “hot topics” such as data protection, IT and cybersecurity, ABC, product safety (and product recall) and ESG.

Opportunistic M&A

Deal drivers to opportunistic supply chain M&A:

