

WHITEPAPER

UK Business Procurement Challenges 2023

Be prepared for what lies ahead



Introduction

The last several years have created an extremely challenging environment for many aspects of businesses in the UK, but in particular the procurement challenges businesses have been facing have been significantly extensive and widespread. The ongoing impact of the effects of Brexit, exceptionally high inflation, post pandemic recovery and having to deal with fast moving technological advancement means that until the proverbial dust settles across a multitude of areas,

UK businesses will need to be prepared to deal with ongoing procurement challenges, and adapt the way in which they carry out their procurement activities to not just stay on track, but to evolve and grow, and this of course includes ensuring their supply chains remain intact and robust. In this report we will explore the procurement challenges that UK businesses have recently been facing, and may continue to face for some time to come.



The Challenges

Having understood the role of procurement in a business along with why it's such an important part of a company's success, we now move onto the many procurement challenges businesses are currently facing in the UK.

① The Costs of Doing Business

In October 2022, the UK inflation level hit 11.1%, the highest in 41 years. Skyrocketing inflation has eroded the purchasing power of the whole country and is unlikely to return to a more manageable level in the near future.

The Bank of England is hoping for inflation to return to the 2% target level in approximately two years.

From a procurement perspective this causes a ripple effect on the supply chain with cost increases, which results in businesses having to charge higher prices for their goods or services. The recent global challenges with the after effects of the pandemic have both contributed massively to this sharp surge in inflation, with increases in wages, raw materials, transportation and of course energy prices.

The construction industry is a prime example of how inflation has wreaked havoc on B2B trade. Contractors, tradesmen and their clients are "used to" working in a space which is subject to constant inflation but more so from a demand perspective. With construction basics such as the cost of steel beams, timber and roofing materials doubling and tripling in some cases, it has made procurement

for businesses an extremely difficult task.

Not only are supplies limited, when businesses can get their hands on the materials they need it's almost impossible to stay within designated budgets.

The inability of contractors to offer fixed price guarantees in their bids has completely skewed their businesses, and when you add the rise in wages for labourers and skilled tradesmen due to labour shortages and high demand it only makes the environment more challenging.

The surge in fuel prices has had a huge impact on the world, as almost every industry and business is reliant on energy and fuel in one way or the other. A report from the Office for National Statistics stated that fuel prices peaked in July 2022, at approximately 48% higher than the previous year.

As of 2022, EU countries have phased out their import of Russian energy, with the UK completely having stopped energy imports from the country as of June 2022. The top heavy reliance on Russian energy has been felt across the world. This has had a significant effect on logistics and transportation costs, which were already on the increase due to driver and other staff shortages.

② Moving on from the pandemic

The effects of the recent pandemic have been visible in the procurement sector for many UK businesses. Businesses operating in a post pandemic world have been getting to grips with post pandemic related procurement challenges, with McKinsey reporting that 73% of their executives stated they were experiencing problems in their supply base at the height of the pandemic. It's easy to forget the height of the pandemic was only a couple of years ago, yet the after effects are still being felt for many businesses and in their procurement departments. Many businesses have had procurement difficulties, and have had to find

new suppliers at short notice with their regular suppliers either shutting down due to lockdown or unfortunately going into administration during this difficult period.

Even if businesses have been able to find alternative supply sources, there have been issues with the onboarding process due to the unknown nature of new suppliers. The urgent nature of last minute procurement has meant that the relevant checks can often be carried out in a rushed manner, or excluded completely.



③ The Brexit After Effects

One of the main procurement challenges that Brexit brought immediately was chaos and confusion at airports and seaports as a result of new import and export documentation requirements and laws. This had a knock on effect by causing goods to be stuck at their places of origin, causing logistical problems for UK businesses who had placed their orders with their suppliers.

The food sector is a prime example of this. A report by the Centre for Economic Performance (CEP) explained how the trade barriers and supply issues caused by Brexit were responsible for costing British consumers £5.8 billion in increased household food bills over the two years to the end of 2021. This has carried on into 2022 with the Office for National Statistics reporting that food and non-alcoholic beverage prices rose by 16.4% in the period up to October 2022.

Brexit is still causing problems for UK businesses from a product procurement perspective, but the knock on effects of the limitation in the free movement of people has impacted, and will continue to impact supply chains due to increased time spent at border checks and paperwork at UK airports, leading to increased customs processing time.

It has become more difficult for EU workers to live and work in the United Kingdom as a result of the changes in immigration policies. We have already seen the effect of reduced talent pools and shortages across multiple UK industries, and many procurement professionals who may even be sponsored by British businesses may be put off with the lack of stability in the UK.

This factor is likely to continue to be a procurement challenge for some time yet, with many businesses not only being affected by supply chain issues but also increased import costs and duties. As of 31st January 2022, UK businesses were typically paying an additional 64% in customs duty. This is something which will affect almost every industry involved in the sale of any physical goods such as clothing. With not all British businesses likely to be able to absorb the costs it could directly affect demand and thus revenue and profits.

④ Procurement Talent

The post pandemic procurement challenges highlight the need for businesses to have highly resilient supply chains, and it has also highlighted the need for sustainable procurement. Talent procurement has also been affected, with companies unable to find the right staff along with existing staff working from home. The work from home model which is still being implemented across many companies can create communication bottlenecks and slow coordination with other team members compared to “normal” working conditions.

According to a publication by Accenture in 2022, there are five key areas for UK businesses to focus on in order to reduce the challenges faced in a post pandemic world:



Put people first

Ensuring that the immediate and extended workforce of a business is in a good place physically, mentally and emotionally is critical, along with working on a shift towards digital procurement to help employees.



Secure the supply base

Identify alternative supply sources, with an “out of the box” mindset. Assess the possibility of a multi country failure scenario in order to be fully prepared for every possible outcome.



Unlock funds intelligently

Focus on cash preservation and the optimisation of working capital.



Build resilience for the future

Factor in risk management into all procurement decisions, from sourcing all the way through to invoicing and payments. Carry out “what if” scenarios and analysis using external data sources and data modeling.



Innovate with purpose

A more aggressive approach towards innovation can provide a safety cushion knowing that a business has a competitive advantage over the competition. This could be in the form of a focus towards sustainability and ensuring a business produces goods or services in ethical ways with a lower carbon footprint and environmental impact. Another could be the shift towards businesses producing goods or services that they are genuinely passionate about.

⑤ Technological advancements

With technology constantly evolving at the speed of light, businesses need to ensure their procurement teams are up to date with the latest technology in order to help them with their procurement systems and processes. Failing to do so will mean possibly losing a competitive advantage as competitors will be able to use technology to procure their goods and services quicker, more cheaply and seamlessly.

The assistant vice president and principal scientist at AIR Worldwide, a disaster modeling firm, explained the critical nature of ensuring systems are up to date: “This event is a perfect example of where data best practices are important,” he said. “If your company has practices in place to deploy patches, the last step is people. It’s all about training and awareness. People need to think twice before clicking emails. People need to understand what they do is really important.”



Conclusion

Effective procurement has been, and will always be one of the most crucial factors in determining a business's success. This applies to both in the short run, as well as from a longevity perspective. If you ask the management staff at any company, they will most likely say that procurement is one of their main challenges, and that it's the lack of a slick procurement strategy that's holding the business back.

The Procurement team has matured way beyond a cost control centre. They have a strategic role to play in ensuring the suppliers you work with are right for your business, from getting the best value for money, to shared economic, social and governance value (ESG). No longer is it just about what you spend, it's also about how you spend.





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Get in touch

 +44(0) 330 343 4000

 www.oneadvanced.com

 hello@advanced.com