



How strong is your supply chain?

Is your business dependant on key suppliers? The recession is moving into the manufacturing industry and links in supply chains are increasingly coming under pressure.

In recent years, manufacturing has moved to a low stock, last minute model of supply. In steady economic times, this has enabled businesses to benefit from greater efficiencies. However, in the current climate it means they are more exposed to the risk of a supplier becoming insolvent.

If one link in your supply chain breaks, this could result in delays, interruption, inefficiency and ultimately increased costs in your business. In turn this may lead to penalties and breach of contract claims from your customers.

An example is the insolvency of retailer Zavvi which to a degree was caused by the insolvency of one of its main suppliers, Woolworths.

What can you do to protect your business?

Ensure that you are dealing on sound contractual terms. In particular, check terms governing passing of title in goods, set-off, your right to withhold payment and termination.

You also need to be vigilant. Unexpected price rises, missed deliveries or requests for early payments are warning signs that suppliers are struggling. It is possible to find out from Companies House or credit agencies if there has been any winding up petitions or county court judgments made against a supplier, which are clear indications of serious problems. You may often hear 'gossip' that a supplier is having difficulties. You should always have a contingency plan on which you can fall back if needed.

If a supplier is insolvent you need to decide if you are going to continue to trade with them. In a formal insolvency where the business continues to trade, it is usual for the insolvency practitioner appointed to run the business to exclude set-off against payment for further supplies and the cost of secured supply may involve price increases. Alternative strategies should be considered, do you have a contingency plan to which you can turn? You may even consider acquiring the supplier's business if this would result in the most efficient outcome. If you elect to terminate the contract, you should aim to enforce any claims to stock that has been paid for and other materials or enforcing any security that you may have.

In the current economic climate, it is essential that you remain vigilant and act quickly to minimise the impact on your business of a supplier's insolvency.

If your business is effected by any of these, or similar, issues please contact **Simon Dakin** on **0115 9 100 200** or email **simon.dakin@actons.co.uk**.



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