

“Fire damage to door stocks at Saw and Plane Ltd meant that they couldn’t supply doors to a manufacturer of holiday homes, who in turn failed to deliver to their customers on time.”

It’s common for businesses to outsource and subcontract work, as savings can be achieved in this way and risks shared. However, if you depend on a single subcontractor or supplier, any problems with their operations could seriously affect your own. Delays in deliveries by suppliers or problems with the quality of their work could interrupt your own deliveries and result in the loss of customers.

Unclear boundaries of liability between you and a subcontractor could have serious repercussions.

Interruption and liability insurances cover at least a proportion of financial loss – but cannot replace lost customers. Accidents to, or caused by, your subcontractors could cause significant delay, losses, bad publicity and so on. It’s important that you carefully select and manage your subcontractors.

Tips

- Find more than one supplier for your most critical subcontracted services.
- The quality and health and safety performance of subcontractors should be compatible with your own. If you find that a subcontractor has an effective quality control system and health and safety management system, this indicates that they are reliable.
- Put subcontracting and other agreements in writing, and make sure the liabilities of all parties are clear. Who’s responsible for insurance must always be included in agreements. It can be useful to get a solicitor’s help when drawing up contracts, although trade and employers’ associations may have ready-made contract templates for a variety of situations.
- Regularly check the credit status and solvency of your subcontractors.

Useful links

Dun and Bradstreet (for checking companies)

www.dnb.co.uk

Health and Safety Executive – ‘Use of contractors a joint responsibility’

www.hse.gov.uk/pubns/indg368.pdf