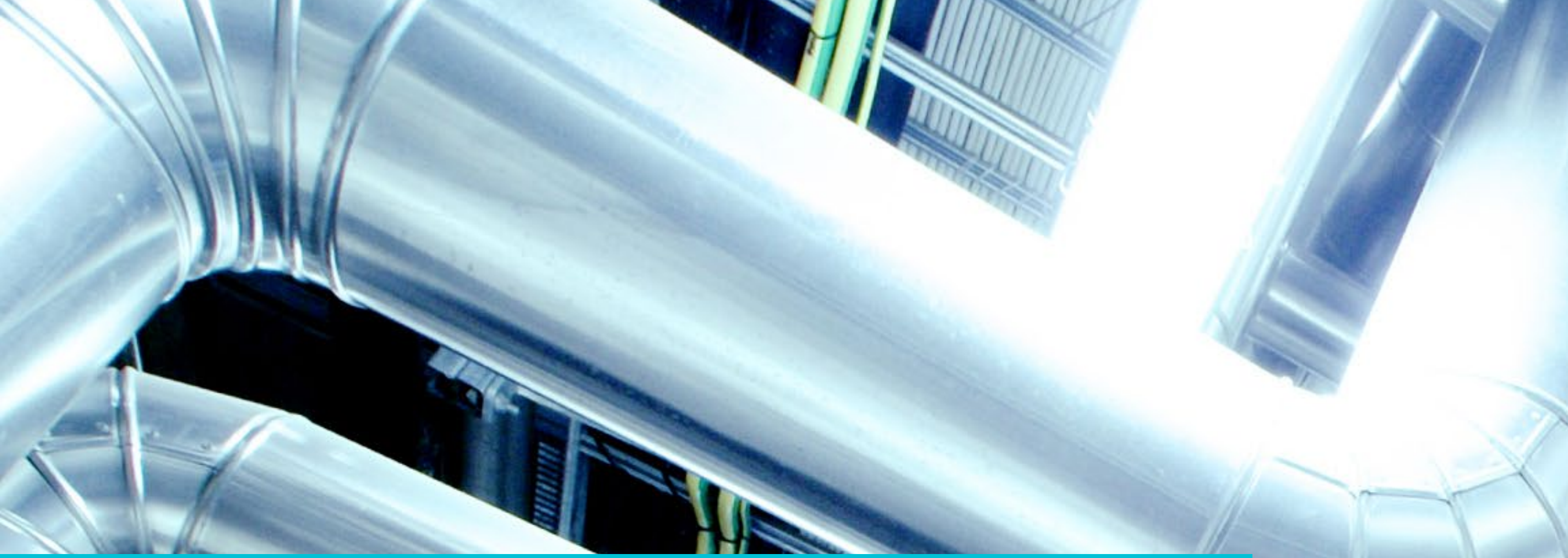

The Spectre of Disruption

Supply chain risk and what you need to know

Summary

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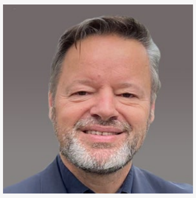

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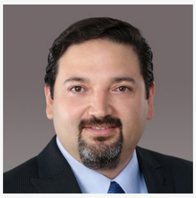

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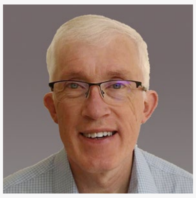

Nick Wildgoose
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Introduction

The past few years have taught us that robust risk management and business resilience strategies are critical to future-proofing supply chains. They should lead every company's corporate agenda. In a volatile global landscape, marked by geopolitical events, and manmade and natural disasters, businesses have experienced unprecedented disruption to just-in-time (JIT) supply chain models. From COVID-19 to the Russia-Ukraine war, rising inflation to the increasing risk of a global recession – this turmoil has caused a stream of knock-on effects. Supply chains and logistics continue to be hampered by strikes and mass labour shortages, port congestion and container costs, alongside energy access and goods shortages, among other issues. So, how can companies boost resilience and reduce their exposure to business interruption (BI)?

In this summary report, we round up the key takeaways that organisations need to consider to mitigate risk. We look at the questions supply chain managers should be asking to develop risk management capabilities and build operational strength.

Understanding where risk lies

Supply chains are complex and unique to each individual business. With hundreds or often thousands of moving parts, they are notoriously difficult to monitor. But as Nick Wildgoose, a supply chain expert who advises leading companies, warns: "What you don't know about your supply chain can hurt you."

This may sound like a simple enough statement. But the devil is in the detail. Having a thorough understanding of your supply chain, and identifying where all the risks lie, is fundamental to effective risk management strategies. It involves mapping the full supply chain and all business processes. But a company must first understand what makes it vulnerable. All organisations should have a formal, written business continuity plan (BCP), which is comprehensive and quick to implement or adapt, in order to minimise operational downtime and loss.

While it is not possible for a BCP to foresee every risk, being able to answer key questions in detail can go a long way towards building supply chain resilience. For example: How long you can cope without a supply of key products or essential component parts? Are your suppliers located in natural catastrophe-prone areas?

Top tips for building a robust risk management framework

Prioritise top management sponsorship – you need the mandate and business case to come from the top.

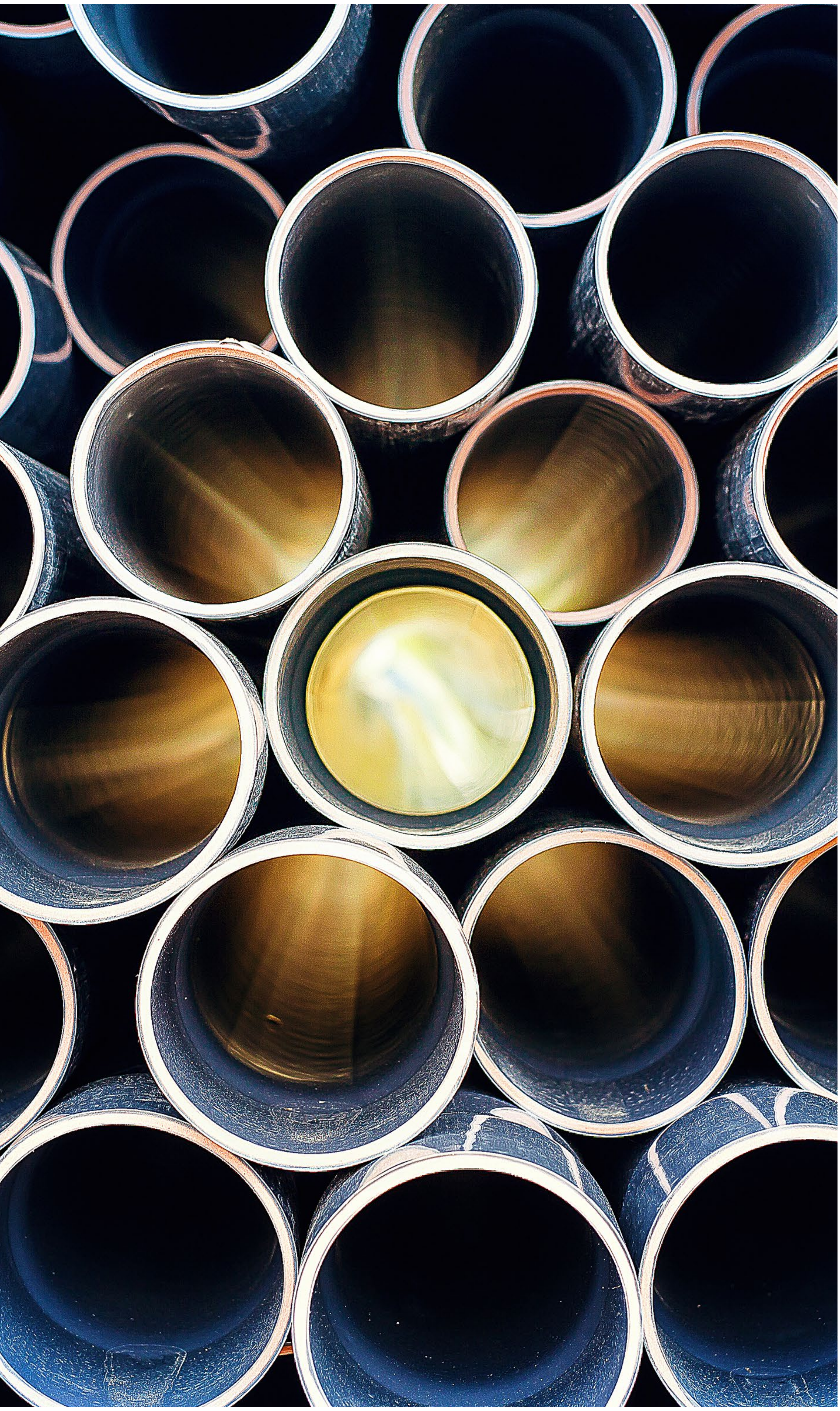
Build a risk management team with sufficient resources – the return on investment will include a greater understanding of the value and financial impact of risk.

Never underestimate the failure of a significant supplier to your most profitable product or service – and remember this might not be your highest spend.

Focus on joined up thinking – with so many people involved in the supply chain, from finance through to procurement, are they lined up?

Incorporate clear, integrated risk reporting metrics and KPIs – embed risk metrics, such as value at risk and time to recovery, in your overall assessment of suppliers, not just cost, quality and delivery.

Adopt appropriate data technology – too many companies still rely on spreadsheets to monitor their supply chains. Harnessing technology and data solutions can help businesses to really understand the risk within their supply chains and build up a picture of multi-tier chains.



John Venneman, Marine Risk Management Specialist, Chubb North America, recommends asking a supplier how much slack they have in their system to help with unforeseen circumstances and finding out about their alternative suppliers for parts with a high burn rate.

To build resilience if a supplier fails, businesses should also focus on increasing inventories and accounting for longer repair times. Sourcing from multiple vendors, if possible, will offer additional flexibility. Shortening supply chains can also greatly reduce vulnerabilities – indeed, many businesses have already responded to disruptions by investing heavily in local warehousing and production.

Multi-tier supply chains

A global survey conducted by McKinsey & Company reveals that almost half (45%) of supply chain leaders say they either have no visibility into their upstream supply chain or can only see as far as first-tier suppliers. In Wildgoose's experience, 40-50% of the time, the reason supply chains are failing is because of suppliers lower down the chain causing mishaps.

With 20% of products generating 80% of annual profitability for many companies, he says a comprehensive picture of an entire multi-tier supply chain may feel impossible. "That is why you should start with your most profitable product or service and look to protect that from a revenue and profitability point of view."

Transparency as a driver

In an environment of mounting regulation, identifying second and third tier suppliers is becoming even more critical.

Ask yourself this

1. Have you established appropriate capabilities to assess supply chain exposures (either through internal resource or engaging a professional specialist)?

2. Has an analysis been conducted to identify supply chain risk accumulations? This may include geographic/ NatCat exposures, cyber incidents, transportation restrictions, public health, regulatory or political risks.

3. Are you confident the effectiveness of your supply chain resilience strategy can be demonstrated (for example, via desktop or real-life exercises, real-time inventory management data, monitoring Service Level Agreements for effectiveness or proven back-up systems)?

4. Has your organisation implemented a business continuity management system to a recognised standard (e.g., ISO 22301 or BCI Good Practice Guidelines)?

5. Have you created a suitable budget to support business resilience measures (such as inventory stockpiling, alternative suppliers, utility back-up capability, business continuity plan development and maintenance)?

Read the full reports for more top tips and an overview of the causes and effects of global supply chain disruption, including a top economist's perspective.

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Businesses are being held increasingly to account for actions lower down their supply chains and penalties are rising. A better understanding of the make-up of critical multi-tier chains provides a transparency to stop disruptions that also helps companies comply with legislation, including the UK's Modern Slavery Act and the upcoming German Supply Chain Due Diligence Act.

Robust supply chain transparency is also a fundamental driver to address the growing challenges around climate risk. "You need that transparency in your supply chain to really understand where your carbon footprint is," says Wildgoose, who notes that around 80-90% of an organisation's emissions can come from outside their direct operations (Scope 3 emissions).

Having a partner with good local knowledge can help companies respond to disruptions and emergencies. At Chubb, our risk management provisions support clients in finding solutions to avoid business interruptions. But it is also about getting ahead of risk and managing it right from the beginning of the supply chain.

As Peter Kelderman, Marine Risk Management Leader, Chubb Europe, says: "With risk management, you are always working on it, making a permanent change until the next one." But it is vital to be agile, adaptable and get ahead of changing conditions, not just through inspections, audits and constant reviews but by regularly preparing and testing alternative scenarios. Think wargaming and the impact of losing a supplier, rather than focusing on profitability and margins.

"No matter a company's size, you might rely on something as small as a specialist screw or fastener to get your product out," notes Wildgoose. "What will you do if the supplier fails?"

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