eBook

Supply Chain Disruptions and Risk Still Looming: How to Create a More Resilient Supply Chain
Manufacturers today must make sourcing decisions in an environment where they don’t know all of the factors. Globalized sourcing operations increase the likelihood of risk or disruption at every turn. Fierce competition and tight cost margins can further magnify the impact of a supply chain failure on a business. Supply chain stability and brand protection is at stake in every sourcing decision.

With operations scattered around the globe, companies face a host of new perils:

- Political and currency risks
- Cyber-attacks
- Terrorism
- Natural or man-made disasters like those we witnessed during Hurricane Katrina, Fukushima, Nepal, and Tianjin

Despite these perils, companies are still not taking risk management seriously and have paid dearly as a result.
For shippers, planning for the unexpected is imperative, but the right ingredients are also necessary. No one risk exists in isolation. Changes in one area often have a rapid impact across the broad spectrum of risk.

It is imperative that you form a strategic view of key risks and their interactions with each other, then map the changing risk landscape and consider how best to respond to the challenges these risks create for your business operations.

Without a crisis to motivate action, risk planning often falls to the bottom of the priority list. The low priority for managing risk is puzzling. After all, supply chain risk management is a very popular topic at conferences and has been written about extensively in books and articles; but in spite of all of the hype and discussion, we still see the vast majority of companies giving this topic much less attention than it deserves.
In a study conducted by the University of Tennessee’s Supply Chain Institute in 2014, over 150 supply chain executives were interviewed about their risk management practices. The results are alarming, showing that these companies are prone to disruption at every turn.

The survey found that nearly half (45%) of supplier spending for U.S.–based companies is outside the United States, with 20% in Asia. The large amount of sourcing from Asia not only means longer supply lines to increase risk, but the political and currency instability, coupled with the higher propensity for natural disasters in the ASEAN region make it a hot bed for peril.
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Looking further into the report, if disaster strikes, about 7 in 10 companies (69%) have a documented response plan in place to salvage business with their customers either through product substitution, proactive communications, or inventory. This means that almost a third of companies do not have any disaster response plan in place.

A disaster response plan must include a multitude of partners – including suppliers, logistics providers, brokers, agents, port officials, transportation teams, and more. The customer is often unforgiving and one disruption could cost millions in current or continued business.
Not one of those surveyed uses outside expertise in assessing risk for their supply chain. Instead virtually all (93%) soldier on, doing the best they can within their own departments. The rest admit they do not consider risk at all. These companies have no safety net to help them break the fall – and it will happen eventually.

The majority of companies (66%) have a risk manager somewhere in the firm, often in the legal or finance areas. But almost all of the internal company risk assessments (often part of governance programs) ignore supply chain risk. Instead, they focus on product liability or overall financial issues that could impact shareholder value in a material and very public manner.
Finally, if a natural disaster or major equipment failure shuts down a company facility (a factory, storage facility or distribution center), about half of the firms surveyed (53%) have a backup plan that can be implemented fairly quickly.

The bad news is that the other half (47%) do not have a backup plan.

Backup Plans for Factory or DC Shutdown

- Yes: 53%
- No: 47%
So what is keeping these supply chain execs up at night? Natural disasters stand as the #3 ranked risk, no doubt brought to top of mind with recent high-profile natural disasters. Typical supply chain concerns – quality and inventory – rank the highest in this survey. Again, this is a direct reflection on the limited scope of risk and disruption considered. Of least concern to supply chain professionals is terrorism and piracy, followed by customs delays.

Supply Chain Risks
Rating of Concern on a Scale of 1-10
(10 indicating greatest concern)

Source: Univ. Of Tennessee, 2014, Managing Risk in the Global Supply Chain
Eliminating risk may be a fool’s errand, given the overwhelming number of things that can go wrong in an intricate supply chain. And even if a company could concoct effective responses to every conceivable supply chain risk, it could still fall victim to inconceivable “Black Swan” events, which by definition, defy rational expectations.

But perhaps eliminating risk isn’t the point.
In the past decade, a promising suggestion arose: rather than making large investments with the hope of eliminating risk, companies can actually better help themselves by making their supply chains more resilient to the infinite number of risks that may become realities. In other words, companies can bolster the resilience of their supply chains by making targeted investments in areas that proactively mitigate risk:

- Enhancing the visibility of their supply chains
- Collaborating with suppliers
- Improving the control of key operational and quality processes
- Enhancing flexibility to improve responses to adverse changes in the external environment

The ability to continue to meet supply chain objectives by preventing or, if necessary, recovering quickly from risk-related disruptions may be more fruitful than merely crossing corporate fingers and hoping these risks never materialize.

WHITE PAPER  To learn more strategies for better managing risk in your supply chain, download our white paper, *Reduce Global Supplier Risks with Collaboration*.  

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