

Chain reactions

Whether it's a supplier going bust or a dispute with a key partner, the potential risks in a supply chain have only increased with the downturn. *StrategicRISK*, in association with Ace, surveys the issues

Insolvency of partners or suppliers was highlighted as the principal risk to supply chains over the next three years, according to the latest *StrategicRISK* reader survey. Respondents overwhelmingly confirmed the hypothesis that supply chain disruption has increased as a result of the downturn (70% believed that it had).

In fact, over a quarter of the respondents (26%) said that, within the last 12 months, their supply chain had been disrupted by the insolvency of a key partner or supplier.

Labour disputes, IT failures, natural disasters, disputes with partners, energy supply problems, protectionist measures, supply shortages and political instability were also identified as significant threats in the future, according to the 100-person poll. Interestingly, the respondents did not generally

believe that pandemics represented a significant risk in the future.

Other threats that a significant volume of respondents said had already caused disruption to their supply chains during the last 12 months included disputes with partners or suppliers (21%), IT failures (17%) and energy supply problems or price increases (15%). Only a small proportion indicated that their supply chains had actually been disrupted by last year's swine flu pandemic (8%).

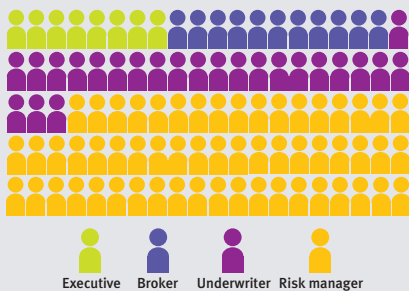
Organisations are generally confident in their ability to handle these supply chain risks, according to the poll. Over half (60%) said that they were either good or extremely good at managing supply chain risk. Only 6% said their organisation was poor at doing so.

Further, around half (48%) said their board adequately understood supply chain risk. A similar number said the board did to some extent (46%). This tallied with another finding: that half of the respondents assigned either a high priority or a very high priority to supply chain risk management (53%). Around a third (32%) assigned supply chain risk a medium priority within their organisation.

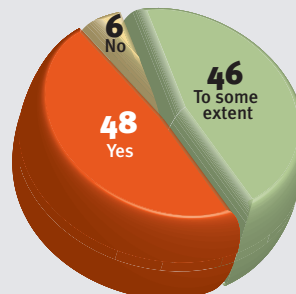
A significant volume of respondents have recently re-engineered their supply chain by moving production or establishing contracts with new suppliers in new geographical territories. Over two-thirds (69%) said they had done so, and 20% of these said they had done this to a significant extent.

When negotiating contracts with new suppliers, over half (51%) of respondents said that attitude and

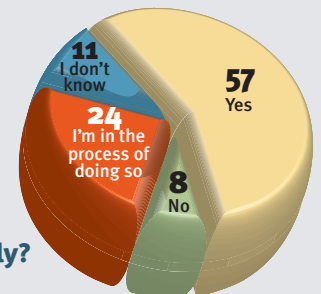
Which role best describes you? Are you ...



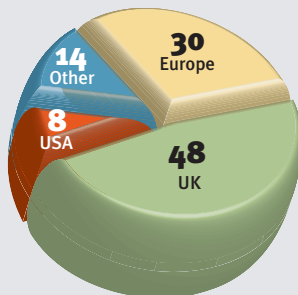
Is the level of supply chain risk adequately understood at board level within your organisation?



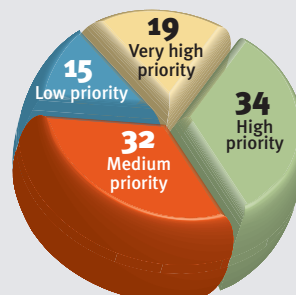
Have you identified critical exposures in your supply chain, eg single sources of supply?



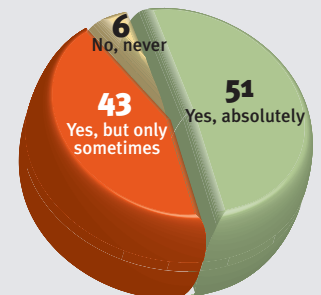
In which territory are you based?



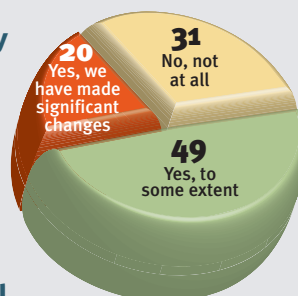
What priority does your organisation assign to supply chain risk management?



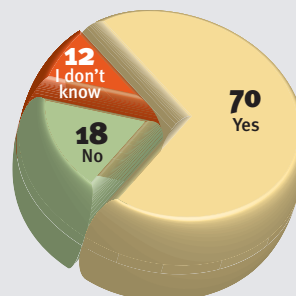
Is attitude and approach to risk management part of your prequalification process when negotiating contracts with key new suppliers?



Has your company recently re-engineered its supply chain by moving production or establishing contracts with new suppliers in new geographical territories?



Has the risk of supply chain disruption increased as a result of the economic downturn?



Over a quarter said their supply chain had been disrupted by the insolvency of a key partner or supplier

approach to supply chain risk management was part of the prequalification process. Most of the other respondents (43%) said that it was, but only sometimes.

A significant portion of respondents (24%) indicated that they are currently in the process of identifying critical exposures in their supply chains. Most said they had already done so (57%).

On the steps taken to increase supply chain resilience, most respondents were improving their business processes (48%), strengthening their business continuity planning (47%), shifting from single sources to a multiple supplier base (35%), conducting a risk audit of their key suppliers (34%), and/or introducing a supply chain management system (18%). A smaller number were also centralising their distribution (11%) and/or increasing their inventory levels (7%). A few of the respondents (7%) are confident with their current measures and do not see resiliency as a problem – and are therefore doing none of these things.

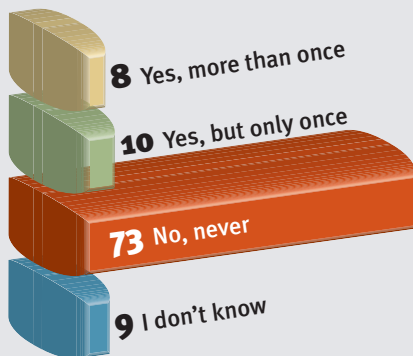
Most respondents had never been forced to issue a product recall (73%), but a small volume (18%) had, and 8% of these said they had done so more than once.

Overall, the survey painted a positive picture of supply chain risk management, with companies on the whole having a strong grasp of the potential issues.

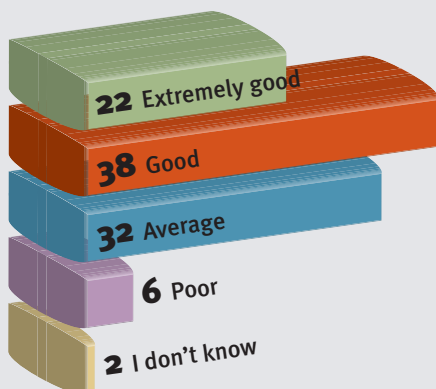
Key

*number of times respondents gave this answer

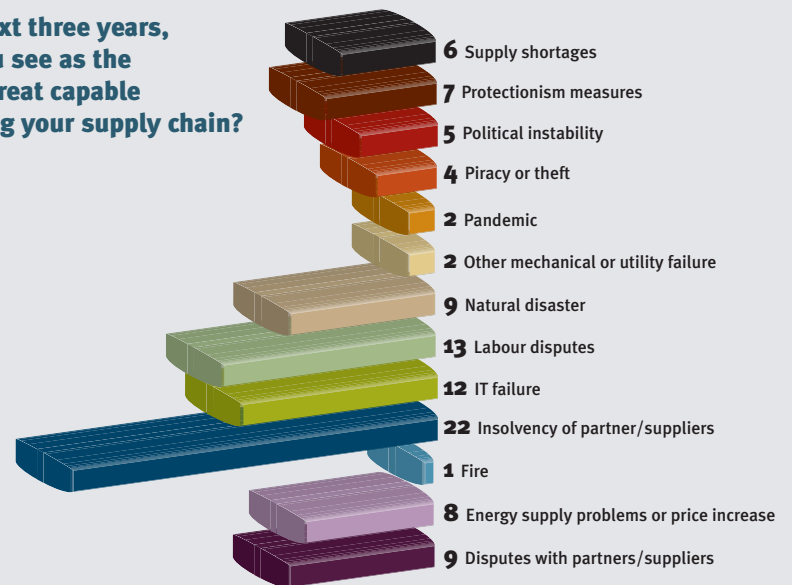
Over the last 12 months, has your company been forced to issue a product recall?



How would you assess your organisation's ability at managing supply chain risk?



Over the next three years, what do you see as the principal threat capable of disrupting your supply chain?



Over the last 12 months, has your supply chain been disrupted by any of the following?*



EXPERT VIEW

Regardless of future financial market trends, it is clear that many companies have already taken the long-term decision to re-engineer their supply chains in an attempt to cut costs and improve business efficiency in the face of the current economic downturn. With change often comes increased exposure to risk if this process is not carefully managed.

So what have we seen that gives cause for concern – or at least should make a company tread carefully when considering a major change to their supply chain?

Winning economies of scale

Companies are typically placing larger contracts with fewer suppliers in order to increase buying power and reduce costs. There has been an increase in the dependence on single-source suppliers – an interruption at a critical supplier may now have significant consequences downstream.

Consolidation of operations

Just-in-time production and closure of small warehouse and production facilities in favour of large, centralised distribution and manufacturing sites have increased the dependence on single locations. With suppliers adopting similar strategies to

remain competitive, the potential exposure from a single event is typically increasing.

Venturing into new territories in the search for cheaper overheads

There is a clear trend to relocate parts of the supply chain to areas of the world that have the benefit of lower overheads. However, this is sometimes completed without a full understanding of local loss prevention standards. There is also the potential to introduce new, unforeseen natural hazard exposures to the group.

Using buying power to apply pressure to reduce supplier's prices

Suppliers are also facing difficult choices concerning reducing maintenance staff, running equipment harder, faster and longer to improve efficiency or reducing security manpower.

From what we see, implementation of these strategies without a proper evaluation of the associated risks represents a potentially dangerous approach to reducing supply chain costs – and may actually expose the bottom line.

Phil Wall, senior account engineer, ACE European Group