

Reducing supply chain risk

Failing to build a resilient supply chain can have a devastating effect on a business.



While many organisations have robust business continuity plans in place to cover everything from IT failure to avian flu, few consider the risks associated with their supply chain.

If a supplier is unable to deliver, this can affect a business's productivity, resulting in lost revenue, increased customer complaints and missed business opportunities. In extreme cases, a problem with the supply chain could even contribute to a business failing.

Just how much of a financial hit a business can take is highlighted in research by the Business Continuity Institute (BCI).

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Part of the problem is the fact that supply chains are getting progressively extended and complex. Supply chains are increasingly global too, especially as companies look overseas for expertise or value. This means a business can be affected by an event on the other side of the world.

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For instance, there are around 20,000 components in a motor vehicle with manufacturers relying on hundreds of suppliers with many of those dependent on other suppliers and so on.

As an example, take the earthquake and tsunami that struck Japan in March 2011. This knocked out much of its manufacturing industry, affecting the supply of components for everything from mobile phones to motor vehicles. Among those affected was Honda in Swindon, some 6,000 miles away, where the shortage of components forced it to put its 3,000 employees on a two day week until September that year.

Reducing risk

To avoid being hostage to events that are outside your control, you need to analyse your supply chain to identify potential risks and take steps to manage them. We recommend a five point plan to ensure supply chain risks are managed as follows:

1. Identify internal and external environments - supply chain process mapping can help a business understand the various participants in the supply chain as well as the potential risks it faces.
2. Risk identification - as risks can be many and varied, including natural disaster, infrastructure availability and supplier bankruptcy, it is recommended that a multidisciplinary team is appointed to draw up an initial risk register.

3. Risk assessment - this assesses the likelihood and consequence of the risks and whether existing risk management practices are effective.
4. Risk control strategies - as the risks are many and varied so are the actions to control them but they could include increased inventory levels, dual sourcing, distribution and logistics alternatives and changing design.
5. Monitoring and reviewing the risks - a monitoring programme should use periodic review, testing and post-incident report analysis to evaluate the risk control strategies. It should also ensure that as the business evolves, new risks are identified and controlled.

While these steps will go a long way to reducing your supply chain risk, in many instances it may also be prudent to take out insurance. A variety of options are available depending on the risks involved and your company's approach to risk management.

What does Allianz have to offer?

From an insurer perspective supply chain covers, or contingent business interruption (CBI) to give it its official name, is a challenging area. The Allianz standard Commercial Select product offers a limited amount of business interruption cover for damage at unspecified customers or suppliers premises in the UK. Beyond this, and including risks outside the UK, we require more information in order to fully understand and underwrite the exposure.

For covers beyond first tier supplies/customers (i.e. suppliers of suppliers or customers of customers) the insurance market becomes very limited. This is for a number of reasons: the constantly changing economic environment creates unexpected risks; there is limited data on CBI covers making pricing challenging; the risk of global accumulations is high and difficult to monitor; there is an exceptionally low level of reinsurer appetite and risk information is often difficult to obtain as information is notoriously unforthcoming.

This is one area, therefore, where good business practice and risk management is vital, as an insurance solution may prove expensive or may only offer limited cover.

For Allianz customers, a suite of risk management solutions are available no matter what size or sector you may be. In addition, a free 10 minute telephone consultation with our business continuity consulting partner Glen Abbot is offered to all customers.

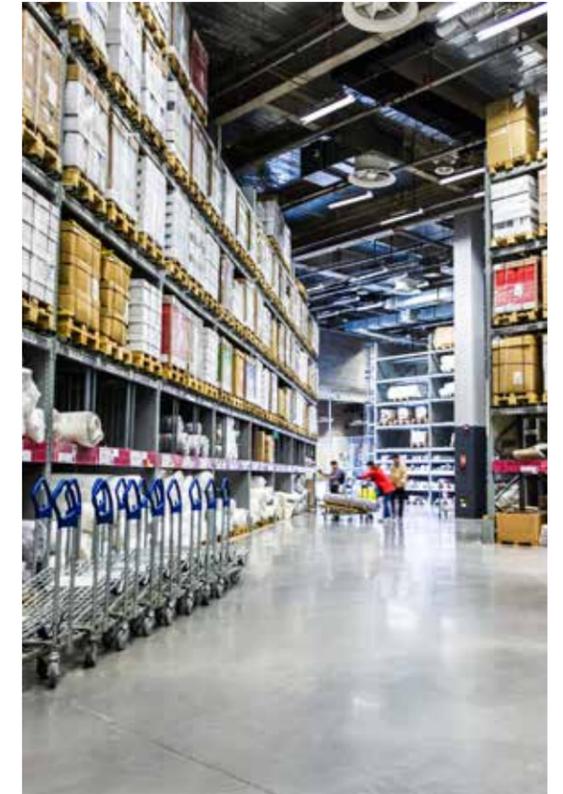
Glen Abbot have a range of products for you to utilise ranging from a start-up plan to a complete plan for any business. For example, the BC Start Up product is a set of simple, easy to use, business continuity planning templates aimed at small businesses. These templates enable you to understand your critical activities, dependencies and risks if the worst were to happen. There is also a recovery plan available with this product, downloadable from Glen Abbot's **website**.

Another source of information for you can be the RISC Authority which is funded by a group of UK Insurers, including Allianz, in pursuit of risk reduction. You can download a copy of the RISC Authorities ROBUST software toolkit free of charge. For more advice on controlling risks, visit Risk Director. www.riskdirector.co.uk.

Supply chain risk control strategies

Here are some risk control strategies that you can use;

- Examine supply chain risk when appointing suppliers. Cost is often the key consideration but if the cheapest supplier also happens to be in an area where there is a high risk of earthquake, flood or civil war, it could be a false economy.
- Avoid high dependence on a single component or supplier. Dual or multi-sourcing may be more expensive but it will significantly reduce this risk.
- Consider the location of suppliers. If they are in the same region they will potentially be exposed to common perils. Spread them geographically.
- Understand which components or services are critical to the business and, where appropriate, consider duplicate suppliers or holding additional stock.
- Review the business process to see whether it could be reengineered to ensure less dependence on a product or service that could cause supply chain issues.
- Monitor social media and blogs for stories about ethical and environmental issues that may affect the supply chain. If a supplier is behaving unethically it could damage the business's reputation too.



Glen Abbot is one of the UK's leading business continuity consultancy firms. As an Allianz policyholder, you are entitled to a special discount by quoting 'Allianz' when contacting Glen Abbot. For more information about how you can manage your supply chain risks visit.

www.riskdirector.co.uk