

How risky is your supply chain?

Recent major events should have been a wake up call for all supply chain professionals in how they manage risk. Global disruptions such as the SARS outbreak, the Asian tsunami and Hurricane Katrina have demonstrated the vulnerability of many supply chains.

Vulnerability to events of this type has increased because of the move to leaner and more efficient supply chains, the introduction of supplier rationalisation and the expansion of outsourcing. The impact on a business can be dramatic, including lost availability and sales, empty distribution channels, a decimation of customer service and significant brand devaluation.

Although risk management has attracted greater interest in the light of the above events, it is often a brief concern before other priorities take over. Most managers accept that operational risk management is part of their daily remit, but few actively participate in assessing and managing long-term strategic risk. Some risk will always be unavoidable but, unless risk mitigation is approached both strategically and operationally, external events will continue to dramatically impact the supply chain. So what is the solution?

Business continuity is the key to risk mitigation, so the first step is to identify the critical parts of the supply chain that underpin your business. Supply chain mapping of all elements can provide most of the network analysis. It is also important to include those elements that are outside your owned network but remain critical to customer service.

Flexibility and agility

The mapping process should consider what flexibility and agility is available within each element of the supply chain and identify the bottlenecks and capacity at each pinch point in the chain. Risk assessments should be made across all areas of 'plan, source, make and deliver' and include a prioritisation of the risk in each category.

Business continuity—and therefore risk mitigation—response can take a number of different forms including, but not limited to:

1. Regular reassessment of inventory policies in order for those policies to mirror a changing demand profile, such as short-term stock level rise in key products to accommodate potential forward sales and/or promotional activity.
2. Review and redesign of supply chain networks to provide alternative delivery options. This may include identifying different transport modes e.g. air vs. sea vs. rail or the availability of short-term warehousing and distribution in the local area.
3. Contingency planning. Although many companies provide backup IT and shared user facilities, any contingency planning should include all aspects of the supply chain and not just IT. Plans should be audited annually and regularly checked using simple reviews through to full scale exercises.
4. Review of all global and single sourcing suppliers. Despite the benefits of supplier rationalisation, it is important to ensure an alternative supply exists or that the single supplier has risk mitigation built into its own capabilities.
5. Embedding a risk management culture on a continuous basis. It is vital to follow this approach at all levels within an organisation and any third party providers. This culture will only be delivered if there is clear senior leadership and when risk mitigation is factored into all supply chain decision making.

Business continuity is something that no business can afford to ignore. If another Katrina happened to your business, would you be ready?

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