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Supply Management: Reducing the Weak Links in Your Business's Supply Chain

The first step in business continuity planning is to identify and evaluate the possible risks facing your business. This should start with the natural hazards that are prevalent in your region (e.g., hurricanes, floods, winter weather, or earthquakes), along with other disruptions that might occur in your community, such as a chemical leak or a major power outage. More information on risk and vulnerability analyses can be found at: www.disastersafety.org/commercial_maintenance/knowning-risks-starting-point-business-protection-business-continuity-planning.

However, because almost every business relies on a chain of critical suppliers and customers, your business continuity plan needs to look beyond your immediate location to consider national or even global problems that can adversely affect your business. In fact, supply chain interruptions can happen anywhere, anytime—and sometimes you may not even be aware that a problem has occurred in a distant location until it reaches your business. Fortunately, your business continuity plan will help you prepare for unexpected supply chain problems, wherever they occur, and reduce the likelihood of disruption to your business. This article provides ideas on how best to address and plan for supply chain vulnerabilities.

SUPPLY CHAIN:

The movement of materials as they flow from their source to the end customer.



UPSTREAM SUPPLY CHAIN:

Businesses that YOU depend upon to design, produce, and supply your products or services to your customers or clients.



DOWNSTREAM SUPPLY CHAIN:

Your customers or clients, or the individuals and companies who purchase your products or services.



The Importance of a Strong Supply Chain

According to a recent study, almost half of corporate insurance experts surveyed listed business interruption relating to supply chains as the top risk for businesses.¹ For most businesses, supply chains are not just a few isolated vendors and suppliers; in today's economy, they typically involve a web of third parties, including product distributors, service providers, manufacturers, contractors, and logistics firms that move materials (e.g., transportation, warehousing, and inventory management). In turn, all of them are dependent on their own infrastructure, such as electric and utility providers, Internet vendors, telecommunications suppliers, and transportation—and their supply networks. A broken link in any part of the supply chain can cause a domino effect that ultimately affects you.

As is so often the case, knowledge is power when it comes to supply chain management. Knowing the extent of your critical suppliers' preparedness for business disruption, and having alternate sources for supplies, manufacturing, and transportation needs when your primary supply chain is unavailable, is an essential part of your business continuity plan. This holds true for your upstream and downstream supply chain. Though this article speaks primarily to upstream supply chain management, you should be just as aware of your downstream supply chain, or where your profits come from (transactions and money spent by customers and clients). If a disaster in your region causes your customers to evacuate the area, you may need to consider expanding your product or services into new

regions or to offer your product or services online to customers thousands of miles away.

Keep in mind that you may be a customer and a supplier at the same time. Just as you rely on your supply chain, others rely on you as part of their supply chain. Consider these following questions to determine what others may need and expect from you and what issues you should address with your current and potential suppliers. By focusing on these questions, you will have the ability to respond to your supply chain partners when they ask about your business's readiness, and you will have the information needed to select only those suppliers that you can clearly depend upon.

Identifying Key Links in Your Supply Chain

The first step in testing the strength of your supply chain is to identify your critical suppliers and prioritize their importance to your operations based on the disruption that would occur should they encounter problems.

Questions you should answer:

- Which products or services do you most depend on for your success—for profitability, reputation, and competitive advantage? Who are the suppliers?
- Do you have any time-sensitive activities, services, devices or systems whose failure or disruption would severely interrupt your business operations? Who are the suppliers?
- Are there specific products or services for which your supplier's inability to deliver goods or services would cause a bottleneck in your operations? Who are the suppliers?
- Do you have any suppliers who are *sole source providers* of goods or services (i.e., you can only get what you need from that one, particular supplier)? What alternatives do you have if they cannot deliver or go out of business?

¹ The Allianz Risk Barometer on Business Risks 2014 survey was conducted among risk consultants, underwriters, senior managers and claims experts in the corporate insurance segment of both Allianz Global Corporate & Specialty and local Allianz entities. <http://www.agcs.allianz.com/about-us/news/press-riskbarometer2014/>.

Evaluating Your Supply Chain Links

Once you have identified your key supply chain links, you should assess their vulnerability to natural and man-made hazards, and confirm that they have business continuity plans in place.

Questions you should answer:

- Where are your key suppliers located and what natural and man-made risks are they likely to face? Are they based in a single location or have they diversified their risk with multiple locations?
- Do your key suppliers have a business continuity plan? In particular, verify how your suppliers can redirect their business to fulfill your needs for a product or service if they experience a disruption.
- Have any of your suppliers experienced an interruption in the past five years? If so, how did they respond, and how did the interruption affect their customers/clients?
- Do you have pro-active, close relationships with their key suppliers so that you will be aware of problems they may face and can work with them to minimize potential disruptions?
- Should you ask key suppliers to stockpile an item or ingredient to ensure they will have the capability of providing it to you, despite any interruptions?
- Can you identify other ways to minimize possible supply chain disruptions, such as “failure to perform” clauses in contracts?
- Remember that a single supplier may reduce paperwork, but multiple suppliers may reduce your vulnerability to supply chain problems.
- Communicate regularly with your staff to understand the early warning signs of supplier trouble (e.g., lengthening cycle times and delivery times, top management changes, etc.).
- Closely monitor regions where natural and man-made disasters hit and determine which of your suppliers are located in the area and if they are affected.
- Involve your key suppliers in your business continuity planning, maintenance, and exercises, so they understand their role in your business.
- Make sure your suppliers create and maintain robust business continuity plans, along with adequate insurance (ask to see their insurance certificates and, where possible, be named as an additional insured).
- Develop plans to address supply chain risk situations when they inevitably do occur, including establishing relationships with alternate vendors and suppliers to provide redundancy for critical goods and services when needed.

Additional Ways to Strengthen Your Supply Chain

- Make sure you have a good process in place for selecting the best and most reliable suppliers for your business. The cheapest is not always the most reliable.
- Develop closer business relationships with your key suppliers—get to know them—including understanding their business’s issues and challenges.

Reducing the Possibility of Cascading Failures in Your Suppliers

Just as you rely on your supply chain for critical products and services, your suppliers must manage their own supply chain risk. Because of the many interdependencies of the supply chain, more and more businesses are taking steps to ensure their suppliers also manage their supply chain risks. In addition to verifying they have a business continuity plan, encourage them to identify and assess their own supply chain risks and take steps to reduce them.

Conclusion

A disruption in your supply chain can result from numerous factors, including natural hazards, power outages, transportation failures, and other unexpected events. The chances of any specific problem occurring will vary by business, sector, and geography, but the probability that your supply chain will be affected by at least one of them is high. With this in mind, it is important to recognize that your supply chain is a critical part of your business and should be included in your business continuity planning.

To help business owners create these plans, the Insurance Institute for Business & Home Safety (IBHS) developed OFB-EZ™ (Open for Business-EZ), a free business continuity planning toolkit to help you recover, re-open quickly, and reduce losses from a business disruption, available at www.disastersafety.org/open-for-business. OFB-EZ includes an exercise to help you identify and maintain contact

information for key suppliers and vendors. This is the first step in incorporating supply chain management into your business continuity planning, and can help you restore your critical business operations and work processes following a disaster.

Recognizing that a chain is only as strong as its weakest link, it is important to select suppliers who take a “best practices” approach to risk management and business continuity planning. Identifying the right suppliers and strengthening your links will help you to stay in business not only when natural and man-made hazards affect your business, but also when suppliers thousands of miles away are at risk. Planning for supply chain disruptions will reduce your business’s vulnerability and provide you with a competitive edge in our global economy.

▶ **To learn more about Hanover Risk Solutions, visit hanoverrisksolutions.com**

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