FEATURE

MANAGING RISK

Anticipating risks and planning ahead make a difference in how a company overcomes disruptions.

Weather events around the world disrupts production of a key component. A port strike delays imports. An equipment breakdown strands a shipment.

These require action in the moment. But anticipating these events before they happen can make the difference between surviving and succeeding.

"You have to have increased sensitivity in your company to the severe impacts that supply chain disruptions can have on your business and your value," said Gene Tyndall, executive vice president of logistics consultant, Tompkins International.

The stakes are high: a Georgia Tech study showed that companies can lose as much as 9 percent of their value with a major supply chain disruption; another study by the same university calculated that it can take two years to fully recover.

It's no wonder that supply chain risk management has become a hot topic. Steve Banker, service director, supply chain management for

BY SANDY SMITH

ARC Advisory Group, the technology research and advisory firm, states, “There are some types of supply chain risk that you can’t totally avoid; you don’t know that there’s going to be a hurricane entering New York City. But you can plan ahead and think about how you’re going to respond. If you can’t totally control it, you can mitigate it.”

But how?

Have a plan in place

No amount of planning can anticipate every risk. But taking the time to anticipate various scenarios can provide a baseline on which to respond to these extreme circumstances.

“You have to update your supply chain maps and risk points,” Tyndall said. “Many companies have mapped their supply chains, but some have not updated them in years or identified the points of risk. The next step after you map your flow of goods is how you map the risks. Nobody knows exactly all the risks that are going to occur. That’s where you start to develop scenarios and contingency plans. We did this for a few ports. They worried about port disruptions, but did not have a plan for who calls whom when it happens.”

The first step in crafting a plan is to understand your operations from top to bottom. “This sounds simple: understanding the breaking point within the distribution center,” said Chris Davis, director of supply chain services for the consulting and engineering firm

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Fortna. “How much can I take on, what time period and when do I begin to break? Those are the first things to understand and it’s widely misunderstood what that breaking point is.”

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populated areas will carry one risk while a driver felled by the flu, leaving his truck parked at a truck stop, creates another issue altogether.

So too does the type of product involved. Time-sensitive items or disruptions in the healthcare supply chain pose different issues than the holiday's hottest toy being stuck at port.

The key to success is in knowing what's happening throughout the chain, whether the disruption is an annoyance or potentially life-threatening to end customers. "Part of risk management is visibility," Tyndall said. "I don't know how a company today gets along without good visibility. That's 65 percent of it; the other 35 is agility and what you do with the information."

Build relationships ahead of time

In many cases, a supply chain disruption or a change in demand may create the need for extra help. That means building key relationships with third-party logistics companies as well as temporary labor firms.

"Many times a company will find itself in a situation where it needs help but isn't sure where to go," Davis said. "This occurs both inside the DC and throughout the supply chain. You have to have these relationships in place before you reach the breaking point. That means having specifically agreed on how the third party can take on the volume, integrating the systems, and testing those systems ahead of time. It's a bit like buying an insurance policy; you'll pay a premium, but that insurance policy will pay off when you go past that breaking point."

But once the agreements are in place, it means sharing information so that the outside entity can anticipate when it might be needed. Davis recommends providing an occasional check in to let the company know your anticipated volumes.

Having relationships in place to mitigate labor shortages can eliminate an unnecessary risk. "Labor risk within the DC can be controlled," Davis said. "Labor issues should not be a creator of risk. If you're consistently building the strength of the management team and having quick on-boarding of new personnel, it can enhance the ability to respond to the risk."

It also can mean taking advantage of the outside vendor's own expertise, especially when partnering with third-party logistics service providers. "The larger 3PLs now think more about risk than ever before," said Tyndall, who spent much of his career with Ryder. "What I was doing at Ryder was identifying risk so that we could come up with mitigation plans for our customers. If our customers had to be worried, we had to be worried. Shippers and retailers need to talk to their partner firms and make sure they are doing this."

Tyndall recommends that these conversations also include issues typically outside the relationship with the 3PL. "The 3PL will say, 'Some things are not our responsibility, like the factory shut down,'" he said. "But you need to be asking, 'What are you going to help us with if that happens?'"

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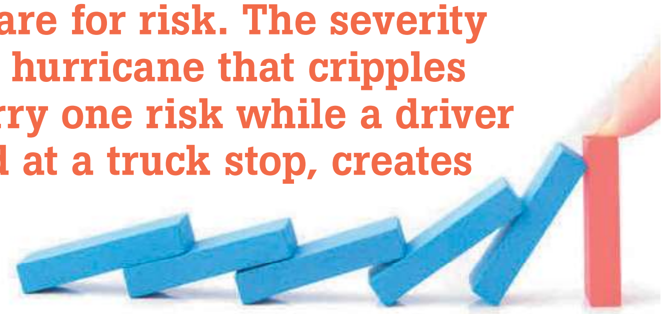

Take advantage of technology

Technology provides visibility throughout all aspects of the supply chain. However, the recent rise in cloud-based computing—where the information lives on the internet rather than on a company's servers—has made it even easier to operate during a disruption.

"Cloud-based systems are easy to put across a network," Tyndall said. "I can implement a cloud-based system and give the screen to eight training partners. Getting a backup system is critical, but also getting everybody to look at the same data at the same time is important. It's easy to go from company to company to company on the same platform. It's a big improvement to visibility and agility."

Scott Craver, product manager, business and information solutions for Raymond Group, sees tremendous potential for managing hidden labor costs and preventing downtime for equipment by using telematics. Something as simple as monitoring battery life on lift trucks can not only save money but also prevent work stoppages due to equipment failure inside the warehouse.

Technology can help lessen risks associated with temporary or new workers on equipment. "A temp may not be real competent on a lift truck, so you can limit the operating parameters of the truck so that they're less likely to have an accident," Craver said. "It will help limit the company's risk."

Automated record keeping also can eliminate another potential risk: a fine when the company is inspected by state or federal officials. "Everybody knows you have to do an operator check list before you operate the truck, but they may not maintain good records," Craver said. "By forcing it electronically, you get digital records that can be stored. You're eliminating the paper piece of the puzzle so that when OSHA comes knocking at your door, you're not manually trying to find records from five years ago."

As an aside, Craver found that implementing such an automated system was a significant time saver. "We found on average it was taking 17 minutes to do the operator checklist on paper, drive the paper to the supervisor, file it, and congregate to talk about last night's baseball game," Craver said. "By switching to electronic, it went to two minutes."

Technology tools can take you only so far, Tyndall said. "You have to start with a strategy all the time. If you have a strategy and a management commitment, and if you have mapped your supply chains properly, assessed the possible risks and have contingency plans in place for the most important ones, then you're as well prepared as you probably can be."

Realize that some things are beyond control

No matter how well planned you are—or would like to be—there will be events that will catch you by surprise. There will be plans that you'd like to execute that you can't get funding for. Take advantage of the disruptions that do occur to build your organization to be stronger for the next time.

"The basic way of coming back better is to realize you weren't prepared for that hurricane and to come up with a risk management plan or mitigation so that you'll be ready for the next one," Tyndall said.

"We learned so much during Katrina that there's now a risk management plan about hurricanes in that part of the country or labor strikes in Long Beach. It takes a catastrophic event to get people to plan better or be better able to react. If you suffer an event, you're more likely to get the dollars to invest in protecting yourself if it happens again. You have to strike while the iron is hot. You want to get your plans sharper and better and in front of senior management. People get complacent when it doesn't happen."

But if recent history is any proof, an unexpected event is just a news cycle away.