

Is your supply chain ready for COVID-19 disruption?

8 Lessons on Mitigating Supply Chain Disruptions Today

The COVID-19 pandemic is upending the carefully calibrated logistics of global shipping and highlighting long-standing concerns. Plunging exports from China and congestion at Chinese ports are disrupting the trade with the country's global partners and driving up transaction fees.

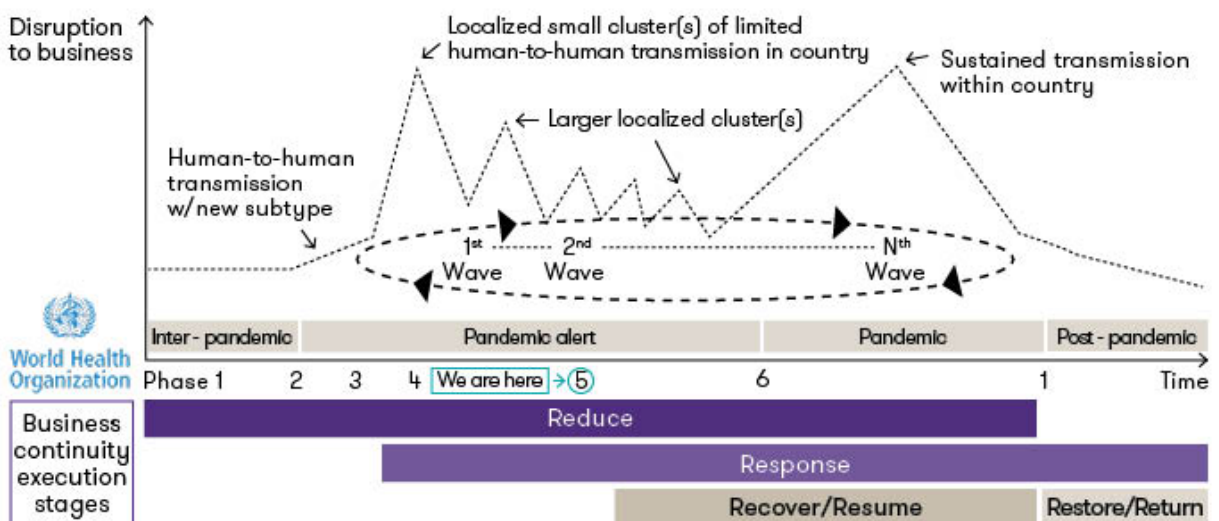
Factory shutdowns have crippled China's industrial production. As a result, shipping volumes out of China have fallen. A record 2 million containers of ocean-going cargo stalled in February, *per Alphaliner* – a Paris-based marine data provider. That February number is higher than the 1.5 million in cargo idled in 2009 during the height of the Great Recession.

Factors including delivery interruptions and delays, rising concerns around product availability, cost, and quality, as well as decreased manufacturing capacity stemming from plant closures and workforce shortages are disrupting supply chains. While the ultimate effects of the COVID-19 crisis can't be known yet, there is no question that COVID-19 threatens the supply chains of both small and large organizations around the globe.

Organizations need to act now to improve supply chain resilience and mitigate evolving constraints and related financial performance issues. They must focus organizational resources on the most important value protection and cash management efforts and determine whether this is the time to implement their business continuity plans and crisis management teams.

They need to define the immediate, critical resiliency responses required to boost corporate performance, viability and sustainability. Supply chain disruptions increase the likelihood of logistical, financial, and solvency concerns, especially in the absence of substantial working capital or ready access to credit. A lack of organizational resiliency presents an essential modern-day challenge for today's business leaders.

What a pandemic means for global supply chains



8 Lessons on Mitigating Supply Chain Disruptions

Following are eight supply chain lessons organizations can apply today to better understand, prepare for and combat the disruptions of the COVID-19 pandemic:

Lesson 1

Build a supply chain risk management governance framework and link underlying processes and key risk triggers to a business continuity plan

- Governance framework should be documented with clear roles and responsibilities.
- Scope and objectives and desired outputs should be clearly defined.
- Resiliency planning and business continuity must be included and tested.
- The cadence for executive level review should be firm and the results documented.

Lesson 2

Collect internal data on disruptions

- Data on prior events or disruptions is valuable. It can help predict results for future events.
- The necessary data often has to be built rather than extracted from internal systems.
- Challenge employees to identify events and train them on inputting and generating the kind of data that is needed.
- Catalog the data for quick reference and better usability within qualitative and quantitative analysis and reporting.

Lesson 3

Leverage external data and models

- External data is equally important and useful for augmenting internal data.
- Industry specific data is often available and offers an added filter.
- Cross industry or customer consortiums offer unique data that adds context.
- External models exist and can help validate internal data and findings.

Lesson 4

Identify the most prevalent supply chain risks

- Brainstorm with your internal thought leaders to identify the most obvious risk factors.
- Consider the industry and competitors to identify other potential risk factors.
- Subscribe to academic studies on risk factors in specific industries or geographies.
- Think about risk factors that occur less frequently (e.g. natural disasters, trade wars, COVID-19).
- Imagine the art of the possible and run a few scenarios to see what happens.

Lesson 5

Conduct a supply chain risk assessment to understand the business impact of supply chain disruptions both upstream, internal and downstream, across various supplier groups and product lines

- Use the risk factors you identify to brainstorm the possible failure modes. For example, consider order and sources of potential disruptions, cost of parts, products and other variable costs, workforce stoppage costs due to supplier non-performance, or non-performance due to supplier workforce stoppage or slowdown.
- Allow all key stakeholders to build their own risk-based view driven by their first-hand view of possible failures and root cause analysis.
- Consider denial of use or premises in the risk assessment. Apply varying time durations.
- Socialize and reach consensus on the possible root causes and impact zones.
- Complete quantitative scoring of the impact models.

Lesson 6

Use quantitative modeling that evaluates supply chain risks based on conditional probabilities.

- Build quantitative models that can learn from valid data you collect and maintain.
- Integrate your risk assessment and cost analysis into the risk modeling.
- Use scenario modeling, root cause analysis, and correlations to test the impact zones for unrelated events across different manufacturing, delivery and quality aspects of your supply chain.
- Use algorithms tuned to evaluate emerging and atypical risks and adjust accordingly

Lesson 7

Develop and iterate on your resiliency plans including a disaster recovery plan with business rules that determine when these plans go into effect

- Always understand the financial exposure you assume with your supply chain subject to the likelihood such exposure actually occurs.
- Align resources with the most critical resiliency plans that also protect your working capital.
- Build detailed resiliency plans as part of your supply chain risk governance framework.
- Maintain disaster recovery plans with clear initiation triggers and guidelines.

Lesson 8

Demand that your suppliers, contract manufacturers, 3PL providers, and other have sophisticated supply chain risk management and resiliency planning capabilities.

- Your upstream and downstream trading partners also have supply chain risks.
- Ensure risk management and resiliency planning are part of your supplier management strategy.
- Integrated supplier performance data into your risk modeling efforts.
- Proactively search the relationships between variables.

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