

Risk Awareness Brief

Managing Risk Across the Supply Chain

While lean manufacturing has become a cornerstone of successful supply chain management and a way for businesses to stay flexible and responsive to changing tastes in their markets, the dependence on and relationship with suppliers resulting from outsourcing and minimizing stock creates a host of exposures. Successfully navigating and managing the risks presented by a convoluted supply chain that spans across regional, national and especially international territory is a complicated endeavor considering the countless precarious factors that can cause disruptions or liability issues across the entire supply chain.

Risk Factors Abound

A key supplier or buyer can be debilitated for a number of reasons such as natural (floods, pandemics, earthquakes, severe storms), human (terrorism, civil disorder, electronic security breaches) or technical (power failure, hardware or software viruses). These events can have dramatic effects on supply chain partners both upstream and downstream.

A single disruptive event in any part of the world could initiate a customer service nightmare in the United States. And disruptions are more common than one might imagine, a recent survey of over 500 companies from 68 countries across 14 different industry sectors conducted by the U.K. Business Continuity Institute revealed that 73 percent of respondents had experienced a supply chain disruption in the last 12 months, not only affecting top and bottom lines but also damaging their brands and relinquishing market share. Potential effects of supply chain disruptions include a variety of potential negative consequences:

- Reduced market share
- Loss of customers
- Damage to image, reputation or brand
- Higher cost of capital
- Potential breach of contract

Supply chain disruptions can not only affect your top and bottom lines, they can also damage your brand and relinquish market share.



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- Failure to meet legal or regulatory requirements
- Decrease in sales and increase in costs, from which many companies never recover

Considering Your Liability

Worse, companies can be held liable for their supply chain partners' mistakes. A defective or inherently dangerous product or part can cause liability issues for its designer, off-shore manufacturer, shipper, wholesale distributor, retail seller and installer, who are collaboratively and jointly responsible. In fact, even though a seller has exercised all possible care in the preparation and sale of the product, it can still be held responsible. Wholesalers or finished product manufacturers can be sued by an injured third party individually or together with any or all other parties involved in bringing the product to market and selling it to the consumer.

Mitigating Risk

What, then, can a risk manager do to effectively mitigate risk in such an environment? Fortunately, there is a growing body of best practices for risk management across the supply chain. One of the most important things is to stay abreast of every development in your environment. Consider the following steps you can take to mitigate your business's risk:

- Choose suppliers carefully, and conduct regular audits and inspections if possible to ensure that their commitment to business interruption prevention matches yours.
 - Check the Moody's or S&P rating of potential suppliers.
 - Verify suppliers' insurance coverage. Remember, a certificate of insurance is evidence of insurance only when the certificate is written, and not at any time after that moment.
- Clearly define contract scopes and draft contracts carefully with the assistance of specialized legal counsel. Consider indemnification, hold harmless and defense agreements.
- Work with MJ Insurance, Inc. to understand the extent of your exposure, and create a business interruption worksheet to quantify as accurately as possible the effect these exposures could have on revenue and profit.
- Re-evaluate the worksheet on a regular basis to account for changes in the market or your business model. Focus not only on the inherent risk of a broken link in the supply chain, but the interdependencies between links throughout the chain.
 - When there is a global event, examine your supply chain to see if any part of it might be affected.
 - Be aware of developing risks, e.g., cyber warfare, climate change, nanotechnology, synthetic biology.



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- After identifying risks, put a plan into place. While it is easy to prioritize speed over follow-through, identifying risks is of little use if steps are not taken to mitigate these risks. Plans might include these components or others:
 - Business continuation plan
 - Geographical diversification of servers
 - Plan to relocate business to an alternate location
 - Sourcing of goods from alternate suppliers

Of course, some supply chain partners may have several locations that could keep the flow of raw materials in the event of a disruption. Investigating these factors is an important component to creating a supply chain risk management plan.

- Transfer your risk by purchasing appropriate coverage, which could include the following, depending on your exposure mix and risk tolerance:
 - Business Income Disruption
 - Marine and Cargo coverage for long voyages taken by commodities, components and finished products
 - Liability coverage, including Commercial General Liability, Directors and Officers Liability
 - Other special endorsements specific to your exposures

Carefully read your policy and ensure that it includes coverage of loss of supplier, stoppage of supply and interruption of service.

Collaborative Approach

Engaging supply chain partners and insurers in your effort to minimize supply chain risk and regularly reassessing exposures can help you to successfully manage your business's risk from beginning to end of the supply chain. MJ Insurance, Inc. can help you every step of the way. Contact us today to get started.

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