

# Effective Supply Chain Management

## Building resilience and control in the COVID-19 era

Jonathan Poole, Head of Middle-Market, U.K. & Ireland Region at Chubb, talks about the impact of COVID-19 on supply chains and provides suggestions on how to minimise disruption.



Jonathan Poole  
Head of Middle-Market,  
U.K. & Ireland Region at Chubb

As companies expand globally, the size and complexity of their supply chains often increase exponentially.

This creates a critical relationship between businesses, the key suppliers of goods and services and their end customers, particularly for those companies operating on a just-in-time basis.

For major corporations, supply chain management has long been a crucial aspect of business operations but, given the multinational ambitions of even relatively small companies, it is a risk which should not be ignored by any organisation.

This is especially pertinent at the current time where we continue to see the impact of COVID-19 manifest itself on business operations and logistics in addition to the wider context of an economic downturn and consumer demand volatility. Add to this the potential effects of Brexit, with the outcome of trade talks uncertain and the UK's transition period due to end on 31 December this year, and it is difficult

to not see the conditions for a perfect storm beginning to form.

The COVID-19 pandemic has highlighted the potential vulnerability of supply chains on an unprecedented scale, with few countries and industries not impacted in some way. Lockdown and border closures have had a significant effect on the transportation of goods with shipping stranded and truck drivers unable to enter some countries and territories. Around the world, manufacturing sites have closed and some farmers have been unable to harvest crops because of a shortage of labour. When each instance is considered individually and in isolation the impact on the supply chain could be relatively minimal but with so many points of failure happening almost simultaneously and on an international scale, the challenge is enormous.

In many sectors, companies will and have responded to the crisis by

adapting or transforming their supply chains and ways of working.

For example, supermarkets which may once have imported certain produce from around the world might look to limit some of their risks by sourcing more locally but that still leaves them potentially exposed should lockdowns or restriction of movement be reintroduced within a particular geography.

Similarly, the financial strain faced by so many companies as a result of the COVID-19 pandemic will only bring this risk into sharper focus.

Few companies could have predicted the level of impact that COVID-19 has created. And while it has been a steep learning curve adding a further layer of complexity to supply chain risk, it has also been a very effective demonstration of the need for resilience and agility through mitigation strategies.

### So, how do you minimise disruption?

Supply chains are complex, multi-tiered and unique to each individual business. With dozens, sometimes hundreds or perhaps thousands of suppliers involved, they are notoriously difficult to monitor. Nevertheless, having a detailed understanding of your supply chain is fundamental to taking control and minimising risks.

Take for example the 2013 horsemeat scandal in the UK where several supermarket chains learned to their cost the failure to properly trace meat supply chains from farm to fork. The subsequent reputational impact shows the real effect of what can happen when things go wrong.

Similarly, it is important to know the precise location of your key suppliers. Manufacturers of some products or component parts are sometimes located very closely together because of access to certain raw materials or a particular skill set. This becomes an even more acute issue when they are based in a region vulnerable to natural catastrophes. Flooding in Thailand in 2011 and the Japanese earthquake and tsunami the same year caused worldwide supply shortages of items such as computer hard drives and pigments for car paint as production was concentrated in the affected areas.

Both the horsemeat scandal and the 2011 catastrophe events were a wake-up call for many companies - including firms not affected directly - to look more closely at their supply chains. Even those with sophisticated monitoring and strategies recognise there is always something more to learn, particularly in the face of emerging risks. There is little doubt that the pandemic and Brexit will do the same.

And while it is always possible a new and unexpected supply risk will manifest itself in a similarly sudden way, companies can still operate effectively around most unknowns.

The way in which businesses manage supply chain risk varies but central to any effective strategy is the ability to answer with as much detail as possible the following questions:

1. Do you have a developed contingency plan?
2. For how long could you cope without supply of your key products/component parts?
3. How many links are there in your supply chain and what is the geographic reach?
4. Do your existing suppliers have spare capacity at other manufacturing/assembly sites?
5. Have you already sourced alternative suppliers in the event that the worst happens?
6. Are your suppliers located in natural catastrophe prone areas?
7. Have the component parts/products that you source ever been subject to a global shortage?

In addition to mitigation strategies, companies should also examine the range of controls and risk transfer options available to minimise business disruption and ensure effective balance sheet protection - reviewing insurance as an additional control measure, where appropriate. For this to be truly effective they should ensure their insurance intermediary has arranged a customised global programme tailored to their specific requirements, facilitating appropriate risk transfer and minimising the extent of uninsured risk, depending on the risk appetite of the business in question. Companies need to understand the range of risk transfer options available can vary depending on the geographical location of suppliers and concentration of risk.

Risk of supply chain failure can be a critical issue for any company. And, while there are often myriad potential exposures and vulnerabilities, it is still possible to manage these risks effectively. To do so it requires an effective mitigation plan and greater boardroom visibility together with the support of insurance brokers and carriers to help facilitate better understanding and provide alternative options. That way companies can not only safeguard business continuity but also, potentially, their reputation.

If you want to know more about Chubb visit [www.chubb.com](http://www.chubb.com)

### Chubb. Insured.™

All content in this material is for general information purposes only. It does not constitute personal advice or a recommendation to any individual or business of any product or service. Please refer to the policy documentation issued for full terms and conditions of coverage.

Chubb European Group SE (CEG). Operating in the UK through a branch based at 100 Leadenhall Street, London EC3A 3BP. Risks falling within the European Economic Area are underwritten by CEG which is governed by the provisions of the French insurance code. Registered company number: 450 327 374 RCS Nanterre. Registered office: La Tour Carpe Diem, 31 Place des Corolles, Esplanade Nord, 92400 Courbevoie, France. Fully paid share capital of €896,176,662.