Supply Chain Business Continuity

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Business Continuity which once concentrated on loss of buildings and IT is waking up to the critically of supply chain and the consequence of its failure. This paper will look at the risk associated with supply chain, the consequences of loss of a supplier and will explore the strategies a business continuity manager can implement to safeguard their organisation from loss of a critical supplier or suppliers.

In the current climate of outsourcing the numbers and type of suppliers to large and small organisations are multiplying. Supply of raw materials, manufacturing, warehousing have in many organisations been outsourced, now functions that were traditionally kept ‘in house’ such as finance, purchasing, internal audit, HR and occupational health are being outsourced. Any part of any organisation may be outsourced.

Loss of a supplier can have a devastating impact on a company. One of the largest losses due to a failure of supply chain was caused by a minor fire in a Philips semiconductor plan in Albuquerque in New Mexico on the 17 March 2000. This fire 1000s of miles away from the organisations it was supplying, Nokia and Ericsson, subsequently lead to a loss of $2.34b in Ericsson mobile phone division.

Philips was under contract to supply a new generation of mobile phone chips to the two telephone companies. The fire in the silicon chip fabricator was only minor and it took less than 10 minutes to put out but it contaminated the factory and halted production. When the two companies were informed of the fire the next day they were told that the disruption would be minor. In fact the plant took several months to get back into production. The two companies reacted differently. Nokia monitored the situation and when they realised they would be short of chips to launch their new phones they worked with Philips and other suppliers to produce the necessary stock. Ericsson on the other had didn’t react to the incident and when several weeks later they realised that they were going to be short of chips they found that all the spare capacity in the market had been taken by Nokia. That year Ericsson sustained a massive loss in their mobile phone division, they failed to get a new generation of handsets onto the market and their share of the market went from 12%–9%. The lessons from this for BCM’s are that a minor incident 1000s of miles away can have a major effect on an organisation.

Suppliers by their nature are often more susceptible to incidents than the organisations they supply. Being small, lean, operating on small margins, providing a ‘just in time’ service and often supplying a single product amplifies the impact of disruption on the supplier. Niche suppliers may supply the same service to a number of different customers and so their loss can have an impact across multiple organisations. During the fuel stoppages of 2001 the water industry in the UK realised their reliance on ICI at Runcorn which produced 70% of the chlorine used in water treatment. It has to also be noted that suppliers may suffer from upstream failure of a 2nd or 3rd tier suppliers. The threats to supply chain are many and varied. The diagram below gives an indication of some of the threats which could disrupt the supply chain. This can vary from a natural disaster to political instability, to getting caught up in another’s dispute. BCM’s should know where their suppliers are, what sort of events they are susceptible to and should look out for any event could affect their supply chain.
BS25999 has a limited amount to say on supply chain. The Standard states that accountability for business continuity remains vested within the organisation, that the organisations dependency on suppliers should be understood, suppliers should have effective business continuity arrangement in place, awareness programmes may extend to suppliers and that the suppliers business continuity arrangements should be audited. Part 1 section 7.7 gives some ideas on developing a supplier strategy but these are limited.

To start the process of managing supply chain risks the BCM should have three key bits of information. They should identify the organisation’s critical activities so that they can ascertain the critical suppliers. Through the BIA process they should understand the impact if a supplier is lost. Through risk assessment they should understand some of the risks which could affect the supplier. Only once this is done can they start to mitigate the supplier’s risks.

The strategy for dealing with supply risks should be in three parts. Parts 1 and 2 involve the education of purchasing and operations staff. The third part is for the BCM to work with the supplier to improve their business continuity capability.

The BCM has to educate those working in purchasing to make risk aware purchasing decisions. Firstly they must make sure that buyers are aware of what suppliers are critical to the organisation and which are not. Purchasing of non critical services can be made on a pure commercial basis but decisions on choosing critical suppliers should be made using a risk based approach. Buyers should be made of the consequence of the loss of the supplier and so they can weigh this against the commercial or cost element of the sale. A supplier strategy should be developed which should contain a number of buying strategies used to mitigate supplier risk. These could include, diversification (buying from more than one supplier), asking suppliers to stockpile stock, ensuring that the supplier has excess capacity or putting in stringent failure to perform clauses.

The BCM should also educate buyers is in looking at the whole company and not just the
product being supplied. This is done usually as part the tender process but is often done superficially. In looking at the supplier the buyer should look at the quality of all the organisations products not just the one being supplied, their history of previous incidents, key personal dependencies (is the key person who developed or understands the product liable to move to another organisation), financial stability, volume flexibility and their business continuity planning.

The BCM should be asked to assess the supplier’s level of business continuity planning as they are best placed to assess it validity and its quality. Recent research states that ‘Where organisations insist on the supplier having a Business Continuity Management plan also, 18% are happy to rely on no more than a statement from the supplier. 27% ask only to read the supplier’s Business Continuity plans and a further 27% don’t know how the supplier’s plans are verified’. By making use of the BCM in assessing the suppliers level of business continuity planning this can help the buyer make an informed risk decision.

The BCM should engage with operational staff to ensure they are aware of which suppliers are critical to the organisation and the impact of their failure. In some organisations this is very well known but in larger more complex organisation the criticality of suppliers is not always appreciated. The BCM should encourage and foster a culture of close monitoring of suppliers so that any possible or actual failures are detected early. This can be done in a number of ways, the performance and quality of the suppliers should be closely monitored and any drop off in quality investigated as this may the start of a more major problem. Near misses should also be monitored as they may point to more major issues. The company should be monitored in the news so that any issues or problems such as scandals, financial irregularities or bad press can be investigated. All operational personnel should be trained in incident management so that if there is a failure then they can react to the incident effectively. A key part of mitigation of supply chain events is recognising them early and reacting to them effectively. Nokia actually increased their market share of the world mobile phone market from 27%–30% as they identified the consequence of the Albuquerque fire early and were able to capitalise of Ericsson’s inability to do the same.

The final way the BCM can help reduce supply chain risk is by helping the supplier improve their business continuity planning. Often suppliers are small company’s and do not have a dedicated BCM resource or the necessary skills to implement business continuity. The BCM should help them develop their plans and involve them in exercises and awareness sessions. By working in partnership BCM’s can help suppliers develop an effective business continuity response.

Loss of a supplier is major risk to organisations and this will increase with the current fashion for outsourcing. The BCM can play a vital role in reducing this risk by helping buyers choosing critical suppliers using a risk based approach, educating operational staff to the importance of suppliers and by helping suppliers improve the business continuity response.

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The author of this article highly recommends the book by Yossi Sheffi “The resilient enterprise” to anyone interested in reading more on supply chain. This book is very readable and contains a number of very good case studies.