FOOD FOR THOUGHT

TAKING A BITE OUT OF SUPPLY CHAIN RISKS DURING THE HOLIDAYS

It's Thanksgiving week and your turkey supplier discovers that its birds are not safe for distribution. Do you have a backup?

Supply chain failures can happen for a number of reasons. According to a study by Zurich and others, the top three causes of supply chain disruptions are unplanned IT and telecommunications outages, cyber-attacks, and adverse weather. Other potential causes of disruption including product quality incidents, lack of credit, and port congestion.

As we head into the holiday season, when supply chains can be stressed due to the increase in demand, it's critical for food and beverage companies to ensure that their supply chains have sound continuity and risk transfer plans.

KNOW YOUR SUPPLIERS' PLANS

The first step in developing a supply chain continuity plan is to understand your supply chain. This includes reviewing your suppliers' plans and their response and recovery capabilities, both during and after a disruption. Suppliers should have processes and procedures in place to swiftly communicate with your organization about any incident that may impact your supply. This allows you to react quickly, for example to secure limited supplies that may be available.

In order to perform this evaluation, your organization should review the following documents, if available:

- Financial assessments of named suppliers or latest accounts.
- Supplier contracts.
- Supplier business continuity plans.
- Others as appropriate.

IDENTIFY POTENTIAL POINTS OF FAILURE

Mapping your own supply chain is also important. Determine where you have sole-source and single-source suppliers as well as key transportation dependencies and facilities. (Products that can only be sourced from one supplier are "sole-source" whereas products that can be supplied from multiple suppliers but are currently only sourced from one are "single source.") You can then identify specific points of potential failure by asking questions, including:

- What could give rise to a supply disruption, for example, supplier insolvency, a strike at a supplier, utility failure, or the political environment?
- How long could such a disruption last?
- At what point would this disruption begin to affect your output?
- What would be the total gross profit impact?
- What steps would you expect to take to address the disruption?

Also, consider the following about your suppliers:

- Where does their supply originate?
- How long have they been supplying you?
- What location(s) is the supply delivered to?
- What is the main mode of transportation for the supply?

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MONITOR YOUR INVENTORY

Once these baseline evaluations are completed, your organization should consider strategies to respond to a supplier disruption. This includes identifying current inventory levels and locations within the supply chain. By doing this, your organization will be positioned to efficiently evaluate and reposition the inventory should a disruption occur, such as severe weather, food contamination, or shipping delays due to high holiday traffic.

Additionally, your organization should consider using monitoring tools to obtain alerts about events that may impact specific locations on your supply chain. These elements can cause a lag in your organization receiving information about issues or disruptions that may impact your supply chain.

Based on the information gathered during these exercises, your company should then develop comprehensive plans, for when there is a disruption. This should include internal business continuity and crisis management. Once these plans are established, all key team members should walk through the sample disruption scenarios to ensure that all participants understand their roles and responsibilities in the event of a crisis. It is also prudent to pre-identify alternative suppliers and have a contract in place should the need arise to use them.

TRANSFER THE RISK

While the above steps can help prevent and mitigate supply chain issues, it isn't always possible to prevent disruptions. Therefore, food and beverage companies should consider ways to transfer these risks, potentially decreasing their financial losses in the event of a failure along the supply chain.

Supply chain insurance policies can provide businesses with coverage for business interruption or loss of profits in the event of a supply chain disruption. These policies can be triggered by physical events, such as adverse weather, along with non-physical events, including labor interruptions, political risks, port or border closures, and supplier insolvency. Supply chain insurance policies typically have a maximum limit of $100 million during a 12-month policy term.

Before extending coverage, a supply chain insurer will typically conduct a detailed assessment of an organization's supply chain. As part of the review, the insurer will identify the company's major suppliers, detect potential sources of disruption, and review its financials. This enables the insurer to design an insurance policy that meets a buyer's specific needs and more effectively addresses its supply chain risk.

In addition to supply chain insurance, food and beverage companies should talk to their insurance advisors about other forms of coverage that could protect against disruptions. Among others, these could include contingent business interruption, marine business interruption, trade credit, political risk, and product liability insurance policies.

The holiday season can stress an organization's supply chain. While the cause of challenges may be unpredictable, taking precautions early can help food and beverage companies mitigate the impact of supplier disruptions.

This briefing was prepared by Marsh's Food and Beverage Practice, in conjunction with Marsh Risk Consulting with contributions from Zurich Insurance Group.

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