

Supply Chain Resilience 2010

BCI survey of resilience professionals

2nd Annual Survey
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Executive Summary & Extract Only



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1.0 Executive Summary

1.1 Introduction

This survey builds on the 2009 survey, subsequent joint work with the Chartered Institute of Purchasing & Supply, and a BCI report entitled *The Business Case for BCM*, which identified that supply chain was the area of their BCM programme that most respondents were unhappy with.

In 2009 the purpose of the survey was to assess the level of supply chain disruption being experienced. In 2010 the question set has been developed to find out how organizations are tackling the challenges and testing out some of the ideas developed by the BCI and its members over the intervening 12 months.

Survey Methodology

Acknowledgements are due to those BCI Partnership members that proposed questions and reviewed the survey prior to publication. These were Aon, BP, DNV, Lloyds Banking Group, Milton Keynes Council, and Zurich. We would like to thank the Chartered Institute of Purchasing & Supply for promoting the survey to their members.

We would also like to thank Zurich for sponsoring this research for the second successive year.

The survey response in 2010, at 310, was 50% higher than in 2009. This would suggest that more organizations are recognising the importance of supply chain resilience since the BCI started its initiative in 2009.

Respondents came from 35 countries across 15 industry sectors (SIC2007) with the majority of respondents outside the UK.

1.2 Key Findings

- o 72% of respondents experienced at least one disruption in their supply chain and the average level was five with some reporting over 52.
- o Adverse weather jumped to the top as the main cause of disruption around the world with 53% citing this, up from 29%; this was followed by unplanned IT and telecommunication outages and the failure of service provision by outsourcers, which jumped from 20% in 2009 to 35% in 2010.
- o In terms of the impact of these disruptions, for 10% of companies the financial cost of supply chain disruptions was at least €500,000. 20% of companies suffered damage to their brand or reputation as a result of third party failures, and over 50% experienced a loss of productivity.
- o 50% of respondents have tried to optimise their business through outsourcing, consolidating suppliers, adopting Just-In-Time or lean manufacturing techniques or have shifted production to low cost countries. Those choosing such options are more likely to experience supply chain disruption with 83% of those using low cost country solutions experiencing disruption, primarily due to transport network and supplier insolvency; whereas for JIT/lean manufacturing adverse weather is the main cause.
- o 24 hours is the typical period within which businesses look to recover critical activities; sustained disruption beyond this period will cause significant economic and service delivery problems in many sectors. One week was generally the longest period that respondents had considered in their planning. Given this finding, it is a concern that 8% of respondents had not thought about supply chain in their BCM programmes.
- o While few responding organizations faced sustainability issues in terms of disruption—defined here as environmental, health and safety, or business ethics issues—those that are exposed to such risks fared badly when problems did arise. They reported much higher levels of adverse media coverage and brand damage (37%) than others.

- o For BCM practitioners, the survey shows that while many are starting out on supply chain BCM, and 24% have not started, good practice is developing in a number of areas especially in identifying key partners via Business Impact Analysis and focusing efforts on this group rather than looking at every supply chain and its constituent partners.
- o Advanced programmes are also marked by looking for evidence of not just a BCP but a wider BCM programme, and its scope and relevance for the product or service that organizations are reliant upon.
- o However, the immaturity of supply chain BCM is evidenced by 15% of respondents not reviewing their business continuity plan with key suppliers, 18% not seeking evidence of BCM arrangements, and 50% of respondents not looking to validate that key supplier business continuity plans would actually work in practice.
- o The financial services sector was more advanced in its approach to supply chain BCM across all indicators, for example, checking the supplier has a BCM programme in place, its scope and relevancy to the product or service being purchased and, in the context of this report, more likely to validate plans. The financial services sector was also the highest user of outsourcing with 87%.
- o The manufacturing sector counts adverse weather and product quality issues as major causes of supply chain disruption; and not surprisingly the sector features high (73%) use of JIT and lean manufacturing techniques. However, this sector is less likely to review supplier plans and 73% have not validated plans will work in practice. Higher levels of increased force majeure invocation are also noteworthy at 36% (compared with the survey average of 14%).
- o In the government, education, health and social care cluster, almost 50% did not record supply chain disruption. Cyber attacks/threats scored the highest levels at 24% compared with the survey average of 10%. This cluster of sectors is more prone to adverse media coverage at twice the survey average. Costs of disruption, where given, are also much higher with a third of responding organizations citing costs of €100K-€500K. This sector is less likely to identify key suppliers, review or validate plans.
- o In the retail sector, supply chain disruption is virtually guaranteed, with the highest levels seen of any sector (average of ten per year). Use of Just-in-Time techniques scored 100% and 83% use supplier consolidation techniques.
- o There are geographical variations in terms of the causes of supply chain disruption. In Australia and New Zealand, energy scarcity and fires featured prominently, while health and safety incidents featured prominently among USA respondents. The UK had the highest levels of reported disruption with 83%, compared with the survey average of 72%. In the ASEAN+ cluster, civil unrest and environmental incidents featured more prominently, whereas in the Central & Latin America cluster, cyber threats and terrorism scored highly.

1.3 Conclusions

Business Continuity Management is proving to be an effective technique to better understand supply chain dependencies and develop a robust strategy to deal with disruption. BCM provides a practical and proven methodology to ensure an organization's own business continuity programme accounts for supply chain disruption as well as enable close and transparent work with supply chain partners to develop their resilience in turn.

BCM's "all risks" approach saves time in guessing which threat will realise itself and cause the actual disruption, thereby allowing time to focus on identifying vulnerabilities and developing preparedness to deal with what ever threat may eventually affect the organization's supply chain. The survey provides invaluable evidence to support the business case for investment in effective BCM programmes by identifying the level of disruption being experienced and measurable consequential impacts.

Good practice is already evident in supply chain BCM and this requires identification of key partners, asking the right questions of them, and validating that their plans are likely to be effective when experiencing a disruptive incident.

Business strategies to extend or optimise supply chains are here to stay, but these are not 'cost free' decisions. Most organizations sit at some point between the polarities of 'no risk at any price' and 'lowest cost at any risk' but the survey indicates that business continuity is still overlooked in supply chain decisions. The findings also highlight that increased disruption is a reality not just a threat when pursuing such decisions, however the intelligent application of BCM can help support organizations take advantage of such supply chain optimization techniques, as part of an overall enterprise-wide resilience strategy.

Reflection and Next Steps

As with earlier surveys, a key purpose of BCI surveys is to capture good practice in tackling common problems shared by business continuity management practitioners around the world. The BCI's Good Practice Guidelines make limited reference to supply chain BCM, and we hope that future editions will be enhanced with the evolving body of good practice in this area. The BCI will also continue to run workshops in this area to facilitate discussion and sharing of experiences in terms of "what works".

There is much more work to be done to convince supply chain and procurement practitioners of the importance of business continuity as a risk mitigation technique and we look forward to continuing our cooperation with the Chartered Institute of Purchasing & Supply.

Perhaps, the greater challenge is in embedding business continuity considerations in strategic and operational business decisions; this requires cooperation across a broad coalition of resilience professionals to demonstrate the benefits of such thinking in the context of the organization's risk appetite.

Finally, we welcome feedback on this survey and its conclusions and will use this input to guide future work in this important area.

End of Executive Summary.

8.0 About BCM

Business Continuity Management (BCM) identifies potential threats to an organization and the impacts to business operations that those threats, if realized, might cause. It provides a framework for building organizational resilience with the capability for an effective response that safeguards the interests of key stakeholders, reputation, brand and value-creating activities.

8.1 About the Business Continuity Institute

Based in Caversham, United Kingdom, the Business Continuity Institute (BCI) was established in 1994 to *promote the art and science of business continuity management* and to assist organizations in preparing for and surviving minor and large-scale man-made and natural disasters. The Institute enables members to obtain guidance and support from their fellow practitioners, as well as offers professional training and certification programmes to disseminate and validate the highest standards of competence and ethics. It has over 5,000 members in more than 90 countries, active in an estimated 2,500 organizations in private, public and third sectors. For more information go to: www.thebci.org

The BCI Partnership, established in 2007, offers corporate membership of the BCI with 80 member organizations including Aon Hewitt, BAE Systems, BP, BSI Group, BT, ContinuitySA, Deloitte, DNV, Continuity Shop, EADS, eBRP, G4S Risk Management, Garrison Continuity, IBM, HP, Link Associates, Lloyds Banking Group, Lockheed Martin, Marsh, Milton Keynes Council, Prudential, PwC, Royal Mail, Savant, Statoil, Steelhenge Consulting, Vocalink, and Zurich. To join as a corporate member, go to: www.bcipartnership.com

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8.3 About Zurich

Zurich Financial Services Group is an insurance-based financial services provider. Our headquarters are in Zurich, Switzerland. Founded in 1872, we now have a global network of subsidiaries and offices in North America, Europe, Asia Pacific, Latin America and other markets. Our 60,000 employees serve customers in more than 170 countries.

8.4 Contacting Zurich

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