Supply Chain Resilience

BCI Survey Report 2009

Summary of the findings of the supply chain and business continuity management survey conducted by the Business Continuity Institute through August 2009

Business Continuity Institute

ZURICH®

Executive Summary

Rationale & approach

The purpose of this survey of professionals involved in business continuity, supply chain and risk management was to understand levels of experienced supply chain disruption and the extent to which organisations of all sizes, sectors and geographies were contending with such challenges and the extent to which Business Continuity Management (BCM) was being applied to help tackle the problems.

The survey can be divided into three main sections:

- Experience of supply chain disruption and its consequences.
- Success or otherwise in getting an organisation's business continuity needs reflected in the supply chain.
- The tactics and actions that organisations are pursuing to achieve greater supply chain visibility, reassurance and resilience.

The survey also explores the extent to which force majeure clauses in contracts are negotiated, whether they consider supply chain disruption, and how BCM could be used to help negotiate these clauses.

The Business Continuity Institute (BCI) would like to thank the 201 respondents who took the time to complete the survey and Zurich for their proactive engagement with this initiative to better understand supply chain management issues and BCMs role in supporting greater supply chain resilience.

Survey findings

- Three-quarters of respondents experienced disruption in their supply chain in the past 12 months. The chief causes of disruption being down to the economic recession, influenza A H1N1 (swine flu), and IT and telecom disruption. Furthermore over one third of respondents reported *increased* supply chain disruption.
- The impact of the disruption was primarily a loss of productivity, although loss of revenue, customer complaints and delayed product availability featured highly.
- Some two thirds of organisations felt that they had been only partially successful in getting their business continuity needs adopted through their supply chain. One in nine felt their needs had been fully met, while almost a quarter had either not tried to do this or had not been successful at all.
- Where supply chain partners were not forthcoming, respondents considered a number of alternative approaches with the selection of an additional supplier being the most common response. Insurance products for financial protection registered a low response due to the immaturity of the market for such products. However a number of insurers are starting to move into this area.
- Almost a third of respondents do not seek evidence of a BCM programme from their suppliers. Of the majority that do, the overwhelming favourite source of evidence is documentation: either a questionnaire or copies of supplier documents. Again when it

comes to checking whether plans might work in practice, only very large organisations engage in exercises or workshops, the overwhelming majority do not go beyond asking for documentation.

- More than a fifth of respondents stated that the presence of a BCM capability was an entry ticket for suppliers to bid in the first place. A third of organisations expressed willingness to work with their suppliers to implement and maintain a BCM capability. However, the majority of respondents stated that BCM would become more important over time.

- Force majeure invocations have increased over the past year for one in ten responding organisations, however this figure hides wide regional disparities with almost a quarter of organisations with operations in Central & Latin America reporting an increase. A good majority of respondents report that they negotiate force majeure clauses, but over two-thirds of respondents still see value in a methodology that would help avoid or mitigate the impact of force majeure invocations.

Considerations & reflection

- The high levels of disruption being experienced by the respondents to this survey underscore the importance of understanding an organisation's supply chain vulnerabilities. As some high profile historical cases have exemplified (Nokia and Ericsson), you need to understand and manage your supply chain because failure could mean your organisation bears the brunt of any reputational and consequent financial impact - not just the supply chain partner.

- Business Continuity Management is being widely applied to build greater supply chain visibility, reassurance and resilience, which is good news. However, only half of supply chain management professionals responding to the survey said that they were involved in their organisation's Business Continuity Management programmes. This is probably an over-estimate of the level of engagement generally given that there would be a natural bias in favour of those who recognise the issue among survey respondents.

- Nonetheless, alignment of Business Continuity Management objectives with supply chain partners has met with partial success for the majority of respondents. This would seem to be a sensible assessment given that few independent organisations share identical objectives. It is important to realise that any supply chain failure however good the business continuity programme may still leave you with a continuity problem. It would be wrong therefore to consider greater supply chain resilience as somehow outsourcing an organisation's own business continuity plan.

- The heavy reliance on receiving and viewing documentation from supply chain partners tends to highlight the emerging nature of the practice of applying BCM through the supply chain and perhaps the difficulty in allocating scarce resources for more detailed work, even if the "internal" BCM programme is signed off.

- As a minimum the Business Impact Analysis (BIA) needs to identify any critical supply chain partners, and the resulting action should be to gain an understanding of their BIA and where you fit in their priorities. From this solid foundation you can start to develop effective Business Continuity Management strategies that reflect the potential impact of supply chain management disruption.

Next Steps

The objective of the survey was to test out some ideas and obtain a snap-shot of current practice and challenges in applying Business Continuity Management through the supply chain. We are therefore looking to use the findings of the survey to move the public body of knowledge forward in four distinct ways:

- A concise practical guide for BCM and supply chain practitioners on considerations and actionable insights to help improve supply chain resilience.
- Establish closer co-operation with supply chain management practitioners and consultants to explore and demonstrate the benefits of BCM.
- Publish a whitepaper on the application of BCM as a method to deliver supply chain resilience within the broader practice of supply chain management.
- Confirm our thinking around force majeure and the value that BCM can bring to help organisations avoid force majeure invocations or at least minimise the impact.

We would welcome any further thoughts from readers of this report on any of the topics covered in this survey. Please send any comments to lee.glendon@thebci.org.

About Business Continuity Management

Business Continuity Management is a holistic management process that identifies potential threats to an organisation and the impacts to business operations that those threats if realised might cause, and which provides a framework for building organisational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.

About the Business Continuity Institute

The Business Continuity Institute (BCI) was founded in 1994 and leads on the development of best practice in Business Continuity Management. The BCI also contributes to relevant legislation and standards. It has some 4,800 members in over 80 countries active in an estimated 2,500 organisations in private, public and third sectors.

The BCI Partnership, established in 2007, is the corporate body within the BCI with over 60 member-organisations including Continuity Shop, Marsh, Milton Keynes Council, BAE Systems, BP International, BSI Group, BT, Community Resilience UK, Continuity SA, DNV Business Assurance, EADS, Garrison Continuity, HP, HBOS (Lloyds Banking Group), Lockheed Martin, Prudential, PwC, Royal Mail, SunGard, Vocalink, Zurich, and the UK Government's Cabinet Office.

Contacting the Business Continuity Institute

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