



A simple guide to supply chain management for small and medium-sized businesses

Introduction

VIRTUALLY ALL companies deal with external suppliers to support their business, but have you considered the consequences if one of your key suppliers had a major disruption? It could be the difference between the success and failure of your business.

Supply chain disruption is often part of doing business, and it is becoming an increasingly significant area of risk. The key is how you deal with and respond to these disruptions. By following some of the steps suggested in this guide, you can either lower their incidence or reduce their impact on your business and ultimately your customers.

Why is supply chain continuity important?

The move towards global markets and outsourcing has increased the size, complexity and interconnectivity of supply chains. Being connected to a greater number of supplier plants, facilities and service providers across the world will inevitably increase the chances of your business suffering a supply chain disruption. This means it is now more critical than ever to identify and manage your exposures effectively - whichever industry you operate in.

Businesses that experience failure and disruption to their supply chain will almost inevitably see a negative impact on their profit, brand and reputation. In today's fast-paced society, customers are now far less likely to wait for your supply issues to be resolved, taking their custom elsewhere. The reputational damage will weaken your ability to win future orders and retain the

confidence of current relationships. Many short-term solutions which may be available to help manage these disruptions will come at additional cost, and have a direct impact on your profit margins.

By understanding where the key points of failure are in your supply chain, and by having a plan in place, your business is able to respond quickly to any disruption, ensure that your business processes are unaffected and that you have satisfied, loyal customers.

Planning proactively for supply chain resilience results in a competitor advantage, and because you can get back in the market more quickly than your competitors, you can benefit from a lower cost of recovery and even gain market share.



What are the common risks of supply chain failure?

Supply chain disruption can come from many sources, such as information technology, power outages, port closures, strikes, regulatory changes and physical damage caused by fire, flood or natural disasters. The knock-on effects mean it's more important than ever for businesses to map out the supply chain and identify the triggers or drivers that would cause a risk to come to fruition.

The majority of companies look at what they can do to respond to a crisis, which is reactive. It's more important to be proactive, by coming up with preventive measures and continuity plans before a crisis arises.

Research undertaken by the Business Continuity Institute in 2018 found that the top categories of supply chain disruption were:

- ❖ **Accidents** – fire, explosions, structural failures, hazardous spills
- ❖ **Labour availability** – shortage of qualified staff, high-cost labour, labour unrest, strikes, slowdowns
- ❖ **Production problems** – overly lean inventory, process issues, reliability, lead-time variability, inflexible production capacity, long set-up time
- ❖ **Natural disasters** – epidemics, earthquakes, extreme weather
- ❖ **Cyber-attack and data breaches**

What can I do to manage the risk?

01

Prioritise your suppliers

Undertake an assessment of your supplier criticality using the RISC Authority supply chain risk assessment toolkit for SMEs (www.riscauthoritysupplychain.com). This will help you identify suppliers who are critical to the profitability of your business in terms of how valuable the items/services they supply are to you, the availability of other suppliers for the same items/services and what alternative options exist for your business.

Not all suppliers will be as important as each other for your business continuity and a detailed risk analysis of every supplier can be a time-consuming and costly task. The RISC Authority supply chain assessment toolkit follows a simple logic by asking a few reasonably straightforward questions that can be answered by you or by the supplier. The assessment result will help your business focus on your priority suppliers - these are the suppliers that could have the greatest impact on your ability to maintain continuity of supply to your customers.

When the priority suppliers have been identified, you can work with them to understand where potential weaknesses might lie, establish what problems their failure would cause your business and to help them to improve their resilience. Separately, your business can begin the process of developing supply chain continuity plans against loss of supply of the items/services they provide, or to implement additional risk reduction measures such as verifying and approving additional suppliers.

In addition to analysing existing suppliers, our toolkit can be used to evaluate any potential new suppliers that you might be looking to enter into contract with.

02

Spread your suppliers geographically

With more detailed knowledge of your critical suppliers, you can start to actively manage the risks. For instance, are all your key suppliers concentrated in one area of the country or even globally? Are these regions prone to natural disasters (earthquakes, hurricanes, extreme flooding) or political unrest? By spreading your suppliers geographically, you reduce the probability of a single event having a disastrous impact on your business.

03

Manage your supplier relationships

Open up a frank dialogue with your key suppliers and seek to build closer relationships. In the event of disruption, you want to be the first customer that they give supplies or capacity to. Working with your key suppliers can help you move up the pecking order and secure preferential agreements.

Enquire as to whether your supplier has their own continuity plans in place in case of interruption to their suppliers. You may decide to refer them to our supply chain risk assessment toolkit. Undertake research on their financial stability and the nature of the markets they operate in (are they in growth or decline?). Another tip for companies is to test suppliers' resilience before there's a crisis. Testing can be as simple as placing an extra-large order without warning and seeing whether the supplier can deliver.



04

Research alternative suppliers

Many companies seek to drive down costs and increase their buying power by consolidating suppliers, but tying yourself to a single supplier will badly expose your business in the event of a disruption. Undertake some research and identify alternative sources for your key products or services, and this could help mitigate the risk or the severity of the disruption. If you are having difficulty transferring supply to alternate arrangements, a key part of your supply chain risk strategy will be effective contract management and strong supplier relationships.

05

Keep inventory stock

Having buffer stock can eliminate many problems related to short-term interruptions. If your company is heavily reliant on one or more items, you may want to avoid 'Just-in-Time' supply arrangements and keep a small inventory of those critical parts.

06

Service Level Agreements

Companies can include penalty clauses in their suppliers' contracts for failure to provide supplies on time. This can be especially important for smaller companies that might otherwise find themselves waiting in line behind bigger competitors.

Finally... **speak with your insurer!**

Your insurer will want your business to prosper by being aware of, and resilient to, a range of threats that might jeopardise your future success. They are on hand with a range of risk control resources and expert advice to help you understand and manage risks within your business, highlighting where potential problems might exist, and offering possible solutions to your supply chain challenges.

In the meantime bookmark www.riscauthority.co.uk for access to a wealth of free guidance documents and resources.

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