

RM Insight®

Risk Managing your supply chain – Beyond COVID-19



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The information in this document provides general guidance only. It provides a general list of what your business may need to consider, from a pandemic planning for organisational resilience perspective. We have not considered your business' particular circumstances and any Government restrictions due to COVID-19 (which may change), and so you may need to consider how this applies in your circumstances or if you need to seek appropriate professional advice. For any queries about insurance cover, please contact your insurer or insurance broker.

The COVID-19 pandemic has highlighted challenges to businesses who use a 'just-in-time' inventory management system and are reliant upon global and multi-layered supply chains. These supply chains may include raw materials, finished goods, plant and equipment parts and labour.

In order to successfully navigate this new world, businesses require a far greater understanding of their supply chain, their position in it and must have the agility to rapidly turn to alternatives when required.

Transparency

It is important to know where suppliers are based, their capabilities and contingencies as well as their own suppliers (and suppliers' suppliers and so on). A part of this should be an understanding of where you stand with these suppliers. If stock is in short supply,

how long will it be before you are able to secure your goods?

Alternatives

When traditional supply chains are broken alternative options could come from within the existing supply chain or secondary suppliers. They can also come from using different raw materials or even the production of alternative products using available supplies.

As a part of understanding your supply chain, you should be able to rapidly determine if your existing supply chain is able to mitigate any shortfalls. If it isn't, secondary suppliers could become an option. These should be scrutinized, potentially with contracts in place to secure supply. For international suppliers, the possibility of using local suppliers (even at increased costs) may become a necessity.

In these instances, it is important to have a robust onboarding procedure that allows rapid due diligence.

If direct replacement materials are not available, the feasibility of using alternate materials should have already been assessed. By knowing what replacement options are available, a rapid pivot to a new supply can be made. As a part of this, understanding any tooling or machinery requirements and how to quickly source and implement these should become part of your contingency planning.

Management

If no alternative is available, by understanding your supply chain (and the likely delays you will experience) you can manage customer expectations. This may not win business, but it could help mitigate losses.

Contracts with suppliers could help transfer some risk. Stipulations requiring minimum stock holdings or having contracts in place with secondary suppliers could help with an initial response. Looking for suppliers who can provide geographic diversity or multiple sources is important.

Finally, by identifying critical items (and exposures) within the supply chain, it may become apparent that there is a need to locally stockpile some items to reduce this risk.

Create the next normal

By creating a more resilient, agile and adaptable supply chain and business, you can not only improve your response to unexpected situations but also position yourself to take advantage of any opportunities that may present in the future.



For more information:

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