Mitigating Supply Chain Risk

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The recent natural and nuclear disasters in Japan have resulted in stories of unthinkable devastation and human loss. Because of that country's position as a global center of commerce and trade, it has also provided perhaps the most sweeping example of supply chain upheaval. This is the latest in a line of headline-making disruptions that only seems to grow ? the economic downturn of 2008-2009, continuing unrest in the Middle East, international terrorism, hurricanes, oil spills, port strikes and product recalls. These unpredictable challenges are establishing new mandates for supply chain professionals globally.

While it is impossible to foresee every natural disaster, act of terrorism or other supply chain contingency, a consideration of such disruptions must be part of the foundational strategic planning process from manufacturing all the way to the store shelf. Pre-defining the right set of response levers to be activated in the event of supply chain disruption helps prepare businesses to manage supply chain contingencies based on long-term strategic priorities instead of scrambling to make hasty, ill-informed decisions when the unpredictable occurs.

Because supply chain disruption is a reality — for both the 200-mile local and 10,000-mile global supply chain, JDA Software offers the following risk-mitigation guidelines for food manufacturing companies:

- Acquire the ability to create contingency plans through detailed business simulations and what-if scenario analysis. During supply chain disruption or disaster recovery, basic infrastructure that supports critical food logistics functions may not be available. Supply chain professionals must quickly find alternate ways to deliver food products to the store shelf while maintaining freshness and avoiding costly obsolescence. Having ready knowledge of alternate supply sources and transportation modes in advance can help ensure that products remain available.

- Create contingency plans that help determine the right product assortments to produce and sell during challenging times. Lead time may increase, consumer priorities may have shifted, and food companies need to keep in mind the impact of supply chain disruption to the perishable nature of their inventory. Campaigns may need to be suspended or substitution strategies initiated to ensure that customer needs are met and that both retailer and manufacturer can make good on their promotional promises. Companies that have adopted precision merchandising practices can respond quicker during challenging times.

- Develop a collaborative relationship with trading partners and be aware of cooperative opportunities. When infrastructure is damaged, there will be limited capacity to efficiently make and move products. There is potentially significant economic value to be gained by creating supply chain partnerships with companies within or across industries to make sure products can still be produced and delivered to consumers in a timely and efficient fashion.

- Establish an integrated business management discipline to systematically identify, resolve, and escalate known risks and assumptions. Companies need to avoid a situation where various functions within the organization make their own assumptions that could be conflicting or sub-optimal. Once an integrated business management discipline is in place, whether under normal circumstances or during supply chain disruption, the company can continue to operate based on a single operating plan with customer service being the primary focus.

- Ensure that contingency rules and policies in place at the strategic level also exist at the operations or tactical level. Running what-if scenarios in advance at the tactical level can help companies operate through short-term supply contingencies without significant interruption or a long-term business impact.

While no business can foresee every emergency, it is critical to remember that when performance is disrupted by a major event like a hurricane or even a minor issue at just one supplier, long-term success lies in being prepared for any deviation — and responding both quickly and decisively. Whether the supply chain spans 200 miles or 10,000 miles, by identifying and managing risk, companies can position themselves to manage through the chaos to protect revenue, profit and market share in the event of supply chain disruption.

Source URL (retrieved on *09/02/2015 - 4:41am*):

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