

Glass half-full

Our lives and supply chains are frequently disrupted by natural and unnatural unforeseen events but many businesses remain unprepared, warns *Carter McNabb*

ARE CATASTROPHIC events on the rise? If the Queensland floods, Cyclone Yasi, the Christchurch earthquake, the Japanese earthquake/tsunami this year and the Victorian bushfires of 2009 are any indication, it's a definite possibility.

Tectonic plate shifts cause the earthquakes and tsunamis, but science predicts that climate change will lead to a higher incidence of extreme weather events.

And while views on whether the most recent floods, storms and fires were due to climate change might differ, one thing that seems universal is our surprise every time another event requiring extraordinary amounts of recovery support occurs.

Every winter in the UK, intercity trains are disrupted by snow. In autumn, train services are slowed by 'leaves on the tracks'. In summer, heatwaves cause rail lines to buckle.

Snow, autumn leaves and sunshine, although often unpredictable, are not new to the UK, and every year commuters mutter and accept the inconvenience.

There are few businesses with such tolerant customers and shareholders.

When a fire, computer glitch, transport accident or staff illness jeopardises business continuity, we need to ask, "Do we have a plan for the next time something goes wrong with our supply chain?"

There are three elements to Supply Chain Risk Management:

- Disruption Discovery: what type of intelligence do we need to detect disruptions?
- Disruption Recovery: when a disruption is identified, how do we recover?
- Supply Chain Redesign: what can be learned, and what strategic steps can be taken to make us more resilient to the next supply chain disruption?

SUPPLY CHAIN DISRUPTION

Supply chain disruption can take any number of forms, and can occur at any speed.

A large retailer recently had its supply chain disrupted when a staff member embezzled so much money that the retailer could not effectively finance its supply chain.

Although compounded by other events, this case highlights the dangers of discovery delays and the importance of early detection of potentially catastrophic events.

Other events are easier to discover: a phone call to say that your



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container fell from a slow boat from China, your truck is wedged under the City Road Bridge, or the power failure lasted longer than your freezers could manage.

Supply Chain Risk Management requires executives to understand the types of supply chain disruptions which can impact on them and to develop methods for discovering the disruptions as soon as they occur.

'Risk Management 101' this may be, but supply chain management and risk management are 'non-colliding orbs' in most businesses.

It's essential to face up to the disturbing question of how long your business could continue to run without goods to sell.

Most small businesses will fail if revenue stops for as little as 10 days and medium businesses can count on about 15 days unless they are diversified enough to only have part of their revenue stopped.

There is a strong relationship between the delay in discovering a disruption and the damage it does to your business and, of course, the subsequent recovery effort required.

DISRUPTION RECOVERY

Disruption Recovery normally takes two forms — it should only take one carefully-planned and rehearsed, or 'war-gamed', form.

Human nature is to take some form of immediate action when we become aware of a problem — yet more than half our reactions will not be in our best interests.

When an aircraft stalls in flight our natural reaction is to haul the controls up: climb, climb, climb! But in reality, that will only exacerbate the stall. The right reaction is to drop the nose of the aircraft and build up sufficient speed to regain control.

Recently, when a Qantas A380 passenger plane suffered uncontained engine failure, the crew's actions were governed by their disciplined use of emergency checklists and frequently-rehearsed routines, which planning and testing had shown would work.

Very few companies have supply chain disruption plans (supply chain emergency checklists), developed when heads were cooler, and tested during rehearsals.

An interview question for Antarctic station managers used to be, "What are your first actions when the station cook locks himself in a freezer and suffocates?"

Best answers included, "Find someone else who can cook."

As in your business, the show must go on: people must eat, and customers must be supplied.

When a container falls off the slow boat from China, your supply chain emergency checklist will tell you that calls to your insurance company and shipping company





can wait until you have expedited your next delivery from your supplier and arranged airfreight for the items which your key customers need by the due date.

If you manage to keep your customers by meeting their deadlines, you will remain in business long enough to worry about the insurance claim.

Losing your customers will have a much longer and more serious impact than losing a big box of stuff (you were insured, weren't you?).

Loss of containers is a known risk, as is loss of computer data, electricity for freezers, etc.

Your organisation should, and must, plan for these risks and annually 'walk through' how your recovery plans will play out.

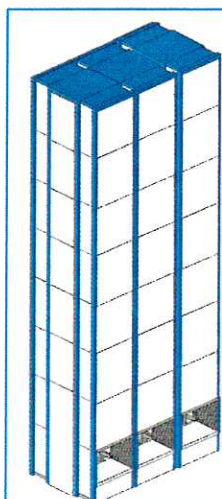
As you think of additional likely consequences in these walk-throughs, document them and re-plan.

SUPPLY CHAIN REDESIGN

As soon as recovery from a supply chain disruption is in sight, re-design and re-planning should commence. Ask "Are we ready for the next major disaster?"

Taking a glass half-full approach, supply chain re-design should focus on taking a two-step strategy with re-design for optimal performance coming first, followed by protecting the optimised system from the events which, albeit random, seem to be becoming more frequent. ||

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SCR-QH-5-73241-TS-113-XCC