



Professional Perspective

Supply Chain Resiliency Post-Covid-19

*Ronald Leibman, McCarter & English and
Melissa Ouari, Marks Paneth*

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Contributed by [Ronald Leibman](#), [McCarter & English](#) and [Melissa Ouari](#), [Marks Paneth](#)

Supply chain disruptions and the need for protocols to address them have received significant attention in academia and business in recent years. Events requiring continuity planning however, such as the SARS and Ebola outbreaks and Superstorm Sandy, tended to be regional in nature. At the time, the supply chain community was not focused on the possibility of a globalized industrial shutdown.

However, the Covid-19 outbreak and its effect around the world has required businesses, nations, logisticians, and others stakeholders to develop more nimble supply chain strategies based on lessons learned the hard way. With this in mind, companies must identify the key components of their business processes, including reviewing and analyzing their dependency on third-party product and service suppliers.

Advance Planning Needed

The need for business resiliency plans has been highlighted by recent research from many respected sources. The results of a [study](#) by the Institute for Supply Management early in the pandemic showed nearly 75% of the companies surveyed suffered pandemic-based supply chain disruption, yet 44% had no plans in place.

It is generally understood that entities with robust business continuity plans recover faster and more efficiently from breaks in the supply chain than those that do not. Leading disaster recovery organizations like DRI International also recognize that resilient supply chains make companies more competitive, and able to respond to a disruption.

The level of preparedness differentiates which businesses survive and which close their doors permanently. The Federal Emergency Management Agency has estimated that between 40% and 60% of organizations that have undergone disruptions fail within three years if they do not implement effective resiliency practices.

Despite all this knowledge and industry focus, a core reason for massive disruption in the supply chain in recent months was a myopic pursuit to minimize cost per piece, often sourcing materials in one country, producing them in another country, and then selling them in yet a third, while at the same time minimizing inventories and inventory holding costs.

However effective in cost savings, these practices have often led to long and complex multi-modal supply chains, which may lack the capability to react as quickly as necessary to meet emergent circumstances, even for, as we have seen, necessities such as drugs and medical devices. Add political considerations to this equation, such as the ongoing tensions between the U.S. and China, and it is clear why many businesses are now seeking a reset and focusing on resiliency planning.

When analyzing their dependency on third-party product and service suppliers, companies need to understand the reasons behind it, and the resiliency of those business partners as supply chains are disrupted, end to end.

Cumulative Assessment

Supply chain risks should be assessed cumulatively, not in a siloed manner or independently. While any one risk factor can have some impact, a combination of factors could produce a perfect storm to halt or severely disrupt supply chain efficiency. Therefore, it is vital to determine likely disruption points along the supply chain continuum, and develop strategies, both unilateral and in cooperation with business partners and/or governmental entities, to mitigate these risks.

In the case of a global supply chain, it is good practice to develop country risk ratings that assess the transparency of the governments along the chain as a key component in characterizing disruption exposure on a jurisdictional level. The ratings should also help illustrate the risks of maintaining a concentration of key suppliers in one country or region. Similarly, criticality ratings should be assigned to each link in the supply chain to determine the manner in which to focus on each. This is especially important when dealing with specialized materials and products that could at some point be in limited supply.

As a part of assessing jurisdictional risk, a Business Impact Assessment should be undertaken. The BIA is a key research and analysis tool for in understanding process criticality and vulnerability and for prioritizing recovery strategy decisions, and acts as a framework for mapping business dependencies. The results of such an assessment help to clarify and

highlight the effects of potential supply chain disruptions on areas such as company revenue, the additional cost to source through more expensive alternate suppliers, additional logistics expenses caused by increased demand or reduced carrier capacity, and reputational and branding risks.

For example, BIA results may highlight a dependency on a single facility with a large share of the global market, and the need to find solutions in the event this supplier cannot perform because of a force majeure event. Solutions could include use of alternative jurisdictions, insourcing, near sourcing, domestic production, and forward inventories and safety stocks.

When developing an assessment, it is important to do so with an eye on the relevant business's place in the food chain. In widespread events like Covid-19, a business and its competitors may all be depending on the same suppliers. Therefore, understanding the company's importance to those suppliers if they were to choose to allocate services or products among their many customers is a key to avoiding supply shortages. Clearly, if a business is low on the chain, determining alternate providers to minimize concentration risk is a must.

Resiliency planning should also take into account the business's production workforce. Thanks to digitalization of the supply chain ecosystem, much time and effort has been put into system resilience and flexibility. However, this did not stop, for example, the recent meat shortage in the U.S. caused by absenteeism from positive Covid-19 tests and worker fear of disease spread.

As a result, we now better understand and appreciate the importance of warehouse workers and truck drivers, among other traditional trades, to the supply chain. Therefore, planning must assure worker safety, maximize attendance, and determine when and to use temporary labor or alternate facilities, all in parallel to the integration of new technologies as they become available.

While the use of BIAs and other investigative measures is crucial, the end product of any resiliency planning needs to be more than writing a largely vestigial policy. Rather, business continuity should become part of corporate culture and be reviewed regularly to assure relevance.

Continuity plans should not simply be flowed down to suppliers, many of whom may not have the capability to comply, regardless of their contractually warranting to do so. Suppliers should, to the extent possible, be included in the planning process to assure that the company gets value from suppliers, without surprises. They should also be frequently audited by the company, or by a qualified consultant on its behalf, to assure compliance.

With the lessons learned in the wake of Covid-19, the importance of the supply chains that carry virtually all of the goods society needs has become clear. As we hope to move out of the pandemic era, it is vital that businesses and governments do not over time forget that substantial supply chain disruption is real and can arise quickly and on a massive scale.

Stakeholders must begin or continue to identify their supply chain risks and how to effectively address them, and plan for future challenges. In the end, continuity planning should be as fundamental to business culture as budgeting. Continuity plans should at a minimum include:

- Conducting a BIA
- Assessing the capacity of all suppliers, including verifying their ability to service and support the company within acceptable timeframes in the event of a disruption
- Confirming that all suppliers have up-to-date and tested business continuity plans in place that meet the company's standards
- Establishing crisis management protocols for communication and coordination of efforts both internally and with suppliers, customers, and, where applicable, government entities
- Verifying that suppliers are in full compliance with applicable health, safety, regulatory, and industry standards to insure that their facilities and workforce will not be at risk should a disruption arise
- Revisiting recovery strategies on an ongoing basis to assure they remain applicable in the current environment, and redesigning business continuity plans where necessary