

Five Steps to a More Secure Supply Chain

Material Handling Industry of America

With natural disasters, terrorist attacks, fluctuating economies and political instability dominating the news, worries about supply chain security can keep C-level executives of global corporations up at night.

If you consider supply chain security to also be the ability to continue to produce and sell a product and satisfy customers in light of a disruption, then a more appropriate term would be “resiliency,” suggests James B. Rice, Jr., deputy director of the Center for Transportation and Logistics (CTL) and director of the Integrated Supply Chain Management (ISCM) Program & Supply Chain Exchange at the Massachusetts Institute of Technology.

“Security measures reduce the probability of something happening, while resilience measures reduce the consequences,” Rice says. “It’s the ability to deal with change and respond favorably, not just by reconstituting your previous capabilities, but by taking advantage of market opportunities when bad things happen.”

And with tough economic times, a resilient supply chain is a necessity.

“There’s always an inverse correlation between how the economy is doing and security issues,” observes Barry Brandman, president of Danbee Investigations, a provider of security consulting and investigative services.

“When the economy is soft, security problems rise,” Brandman says. “When the economy goes in to a recessionary level, security problems spike because there’s less management oversight due to trimmed payrolls.”

The following tips represent a range of best practices to help bolster supply chain resiliency.

1. Assess Risks and Vulnerabilities

According to MIT’s Rice, there are four sources of enterprise risk: financial, hazard, operational and strategic. And supply chain stability can be affected by occurrences in any of those areas.

“Quality failures, supplier failures, labor actions, or a dramatic customer change—either good or bad, as in dramatic increase in demand for your product, or they go out of business and ship their full inventory of your products back—all constitute supply chain risks,” says Rice.

It’s critical to map out your supply chain to establish a line of volatility beyond which the risks cannot be managed, states Gary S. Lynch, global risk intelligence strategies and resiliency solutions practice leader at Marsh Inc., and author of *Single Point of Failure: The 10 Essential Laws of Supply Chain Risk Management*.

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Put a laser focus on the supply chains that produce the greatest value for the organization, usually measured in margin, revenue or cash flow,” Lynch recommends. “Then dissect those chains, looking all the way upstream and downstream to identify failure points. Understand who the key suppliers are and what unique resources you need—skills, technologies, manufacturing capabilities—then model to measure the effects of a failure here versus there.”

Measuring a maximum loss yields the ability to prioritize what the worst failure would be. Then, allocate some resources against that risk, says Lynch. “It’s an expensive process, but it forces you to optimize resiliency as part of your business process.”

2. Seek Insider Info

To thwart a variety of internal issues—from workplace dishonesty, morale issues and substance abuse, to non-adherence to company policies and procedures—companies should consider gleaning insider information.

“Place trained investigators who pose as regular employees in a variety of positions inside your facilities for insight,” suggests Danbee Investigations’ Brandman. “Or, structure an effective hotline program that encourages employees to anonymously communicate known or suspected problems or threats.”

Having this information, he continues, “enables management to make highly defined and targeted decisions in their companies’ operations and to identify problems and deal with them before they really mushroom into something that could be concerning.”

3. Plan Your Strategy

After identifying sources of risk, next make plans to attempt to either eliminate them, or to enhance your system’s capacity to respond, says MIT’s Rice. “Business continuity planning provides for continuity of operations in case something bad happens,” he notes.

In his research, Rice has identified six different areas of loss that can cause a company to fail:

1. Ability to supply material.
2. Ability to run operations.
3. Ability to communicate.
4. Access to personnel.
5. Ability to transport materials.
6. Financial flow (as in a customer).

Those potential failure points should form the foundation of a business continuity plan, he suggests.

It’s also important to note that one plan does not fit all supply chains, cautions Dan

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Purtell, senior vice president of supply chain solutions for BSI Group, a global provider of risk-based solutions, assessments, and training programs.

You can't secure your goods the same way everywhere. It's going to cause you to gravely over-spend in low risk countries and to probably under-spend in high risk countries," he says. "Tier security based on risk and on data about losses that have occurred to be sure you know what provides the most cost benefit."

4. Partner With Suppliers

The experts agree: with the rise of outsourcing and globalization of the supply chain, suppliers can often be a weak link.

"Maybe a major earthquake didn't hit your primary supplier's location, but occurred three suppliers removed from them, and now there's a backup that's slowing you down," posits Marsh's Lynch. "When the earthquake in Japan knocked down the supplier of \$1.50 piston rings key to the manufacturing of automotive and heavy equipment engines, it brought down about 70 percent of that industry for extended period of time."

Because of such dangers, companies should consider an alternative to the regional supplier hubs that have sprung up globally over the past two decades, suggests MIT's Rice.

"I think there is a recognition of the significant vulnerability around supplier hubs, as well as the importance of evaluating all your suppliers," he says. "It's one thing to talk with your main supplier, but what about their suppliers, or the other 499 suppliers you may have? You need to go far enough in that chain to avoid problems."

Because of this, Lynch anticipates even greater transparency and visibility into supplier's operations will develop going forward. "It will be a requirement as organizations set up their supply chains. As they enter into agreements with business partners, they'll ask more questions and do more due diligence to understand who has a part in bringing their value to the marketplace."

5. Test, Test, Test

Having a business continuity plan in place isn't enough, however. "Drill regularly to be sure that the business continuity processes are aligned and maintained," says MIT's Rice. "And, whenever there's a change in your production process or in a supplier, update your business continuity plans."

The plans should also be reviewed with both customers and suppliers, he adds, to ensure that all parties understand your expectations and your objectives.

Danbee Investigation's Brandman agrees. "Complacency will typically breed a false sense of security, which almost always precedes a major security problem," he cautions.

To maintain a high-level of awareness throughout the supply chain, Brandman recommends an on-going series of comprehensive security audits at least once a

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year.

“How you structure your risk assessment and subsequent audits will depend on a number of factors, including the product and commodity that you handle,” he says. “But also the size and scope of your company, your facilities’ locations, and the number of business entities involved in your supply chain, both domestically and internationally.”

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