GRAMERCY
RISK MANAGEMENT

Supply Chain Management

February 2020

The recent outbreak of the Coronavirus in China has highlighted the need for supply chain management. Supply chain management (SCM) is the comprehensive management and oversight of the flow of goods, IT, services and labor needed to distribute your final product or service to the customer. For example, depending on the industry – building material, foodstuffs, supplies, tools, equipment, information flows, connectibility, and labor. Or, the loss of a key employee – such as your company's highest producer or marketer.

Companies relying on goods from China are hoping for a prompt return to normal. Jaguar Land Rover, Hyundai, Apple and others are experiencing disruptions due to closed factories, quarantines, and problems with air freight operations. In his February 11th report to the House Financial Services Committee, Federal Chief Powell warns that the Coronavisus could cause disruptions in China that would ultimately affect the global economy. Most disruptions are not as large or complex; they arise from weather events, labor unrest, supplier bankruptcy or cyber hacks, for example.

As a rule, standard business interruption policies require property damage before coverage is triggered. ISO – the Insurance Services Office – recently developed two advisory endorsements for the business interruption policy that would provide limited coverage for losses related to an outbreak.

Risk Management and the Supply Chain

The Supply Chain Management Review (September 26, 2019) offers a five-step risk management approach to identify and mitigate financial (and operational) risk associated with procurement and purchasing:

Step One – Risk Identification	Identify the vulnerably and risk associated with each step in the process.	Lay out the procurement process and ascertain vulnerable points in the process.
Step Two – Risk Analysis	Determine impact (severity) and the likelihood of occurrence for each exposure identified in Step One.	Assign a numerical score to each exposure. Multiply impact times likelihood.
Step Three – Risk Ranking	Determine which exposure(s) presents the greatest risk to the company.	Factors include financial loss and operational disruptions.
Step Four – Risk Mitigation	Develop strategies to mitigate or reduce the level or risk.	Contingency plans, alternative suppliers or products, diversification, stockpiling, business interruption insurance.
Step Five – Risk Monitoring	Checking on your plan to see if new issues develop and if the existing mitigation efforts are working efficiently.	This is especially important when a new product, service or unique project in undertaken.