Counting the cost of supply chain disruption

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One in three organizations have experienced cumulative losses of over €1 million during the last year as a result of supply chain disruptions. That is according to a report published today by the Business Continuity Institute and supported by Zurich Insurance Group.

The Supply Chain Resilience Report showed that, despite a decrease in the percentage of organizations that experienced at least one disruption (70% from 74%), those organizations suffered more of them, with the percentage of organizations that experienced at least eleven disruptions during the year increasing from 7% to 22%.

The increased cost of disruption could be attributed to significant increases in the loss of productivity (68% up from 58% in 2015), cost of working (53% up from 39%) and damage to brand or reputation (38% up from 27%), all as a result of supply chain disruptions. 43% of organizations do not insure these losses meaning that they are bearing the full brunt of the cost themselves.

Arguably one of the reasons for the increase in the number of disruptions for many organizations is that fewer of them are maintaining adequate visibility over their supply chain, with the percentage of organizations that do so decreasing from 72% in 2015 to 66% this year. This could have major consequences when it comes to managing the supply chain and ensuring that disruptions are minimised.

The report concludes that ensuring supply chain visibility remains one of the biggest challenges to organizations with the data showing increased dependencies between suppliers and downstream organizations, reinforcing the need for organizations to understand their supply chain in more depth, identify key suppliers and improve reporting of disruptions.

The report also highlights that top management commitment is required in driving supply chain resilience and performance. The findings affirm how leadership input can significantly influence good practice and help build an appropriate organizational culture and structure.

Other findings of the report include:

- 41% of disruptions occur with the immediate supplier, compared to 50% last year, however 40% of respondents report that they do not analyse the source of disruption.
- The percentage of organizations reporting losses in excess of €1 million from a single incident remains static at 9%.
- Unplanned IT and telecommunications outage remains the top cause of disruption with loss of talent/skills moving up to 2nd place from 6th in 2015. The remaining members of the top five causes of disruption were outsourcer failure, transport network disruption and cyber-attack/data breach.
- The top five consequences of disruption are loss of productivity, increased cost of working, customer complaints received, service outcome impaired and damage to reputation/brand.
- Only a little over a quarter of respondents (27%) report high top management commitment to supply chain resilience, a worrying decrease from 33% last year.
- Just under three quarters of respondents (73%) report having business continuity arrangements in place to deal with supply chain disruptions.

Patrick Alcantara DBCI, Senior Research Associate at the BCI and author of the report, commented: "*Our study reinforces observations about the growing cost of supply chain disruptions and its negative impact on an organization's reputation. More than ever, it is important to focus on supply chains, identify areas of risk, and deploy appropriate arrangements which increase resilience. Business continuity has an essential role to play in this. Our research abundantly shows how business continuity professionals, working with their supply chain counterparts, can build supply chain resilience and direct management efforts in this area.*"

Nick Wildgoose, Global Supply Chain Product Leader at Zurich Insurance Group, commented: "*Adequate supply chain resilience is a prerequisite for improving organisational performance. You need senior management support to achieve this, in terms of breaking down the organisational silos and providing appropriate resources. The businesses that invested in this area have recognised there is a compelling business case to do this and are seeing the benefits.*"

For the last eight years, the BCI Supply Chain Resilience Report in partnership with Zurich Insurance

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Group has provided valuable insight into supply chain disruption and benchmarked the business continuity arrangements of organizations in this area. It has also demonstrated how specific key behaviours reinforce good practice and build an organizational culture contributing to supply chain resilience and performance.

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