

Can your network of suppliers withstand seismic shocks?

Why building supply-chain resilience could save your business

The COVID 19 crisis, aside from being the largest shock in recent memory to supply-chain resilience and the world at large, has shone a light on a wider problem for businesses. Many organisations are unprepared for the supply chain shocks and disruption that occur when seismic events occur. And the pandemic has proven that preparing for these tail events is not only prudent but vital to the long-term health and success of a business.



QBE research has shown that firms can expect to encounter a **significant supply chain shock once every four years** on average¹.

The bottom-line impact of these shocks can also be dramatic, with the average firm **losing over half a year's net profit** during significant shocks².



A supply chain is only as strong as its ability to weather, bounce back from and adapt to supply chain and distribution shocks.

What to look out for

You can minimise exposure to shocks by knowing the types of situations businesses and their supply chains must look out for:

1.



Supplier / distributor structure and concentration

A smaller list of suppliers can make networks easier to manage and cost effective, but it also exposes the network to risk. Understanding the concentration and structure of your supply chain is critical to preparing contingency plans.

2.



Geographic concentration and reliance

Many sector supply-chains hold geographic concentrations. Looking further up the value chain can highlight issues.

3.



Inventory levels

Inventory concepts have traditionally focused on improving efficiency and cost effectiveness of the supply chain. Understanding the likelihood, and impact, of disruptions in your supply chain is key to determining inventory levels.

4.



Vulnerabilities in your supply chain

Every sector will have idiosyncratic supply chain risks. It's important you understand the inherent risks to upstream and connected suppliers.

5.



Supplier financial position

The importance of the financial health of the network is often overlooked. With today's interconnected supply chains, the failure of one participant can have a dramatic impact on everyone else.

Preparing for shocks

There are processes which can help you prepare your business for unforeseen supply chain shocks. From thoroughly understanding the financial resilience of the organisations you rely on, to understanding supplier alternatives, understanding how to minimise exposure to risks is key.

Opening communication lines with suppliers and having active dialogue can help fill in blanks and uncertainties you may have otherwise. Constant check-ins and evaluations mean you get the information you need to take a long-term view of potential business disruption and how strong your network really is.

For more information on understanding supply chain risk, read our article [here](#).

¹ QBE Research, Hesmur Research

² QBE Research, Hesmur Research