



AIG UK Limited

13 June 2008

Managing risk across the supply chain

The global supply chain is more complex and efficient than ever before, but it is still vulnerable to certain key risks that need to be managed effectively, delegates at the AIRMIC conference heard today at a presentation by AIG Global Loss Prevention Practices' Senior Vice President, Steve McKay and Corporate Manager, Nick Tilley.

Historically, supply chain considerations were fairly simple and often focused on issues such as how to move goods from A to B or how to optimise inventory levels. However, as supply chains have evolved to be more intricate and effective, so have the risks they engender.

"A shift to global sourcing, plus the introduction of 'just-in-time' production processes, has resulted in rapid manufacturing, low inventories and a reliance on modern transportation and logistics," said Steve McKay.

"Coupled with world demand for commodities and finished goods, this has resulted in a taut supply chain that is extremely sensitive to three major issues: capacity constraints at major transport hubs and a projected shortage of container ships; strategic supplier failure; and business interruption of a key supplier."

Regarding strategic supplier failure, McKay explained: "As we continue to seek low cost raw materials and goods, our dependency on new suppliers with unproven systems increases. Product quality or delivery issues may cause significant impact to revenues and to a company's brand image in the market place." He added that other issues such as a supplier's environmental or health and safety policies could also present problems.

Nick Tilley continued: "Business interruption at a key supplier may have significant consequences for a company's own production capacity. As a result, how key suppliers address business interruption issues and contingency plans also needs to be managed to optimise supply chain resilience."

So, how can companies address these supply chain risks? "The identification of supply bottlenecks and critical dependencies in the supply chain can enable prioritisation of key supplier relationships," says Tilley. "Appropriate communication tools can then be used to extend effective controls to those suppliers and allow you to monitor, assist or intervene where deficiencies are identified."

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