

# THE INDEX

THE CIPS SUPPLY CHAIN RESILIENCE SURVEY

## Is your supply chain network ready to cope with disruption?

Procurement experts are ideally placed to identify supply chain risk and the potential business impact. Yet, a CIPS survey shows many could do more to protect their business

Outsourcing and multi-tiered global supply chains are growing, and with them operational and legislative risk. As procurement and supply management professionals increasingly provide a fully embedded, cross-departmental function, offering more consultation, this risk can be best managed within procurement.

While there is a growing awareness that an unexpected risk can wipe out cost

saving many times over, procurement professionals are not fully utilising their unique oversight of the end-to-end supply chain, as a CIPS survey of over 900 procurement professionals revealed.

Supply chain resilience requires planning and designing the network to anticipate unexpected disruptive events and need to be able to adapt, while maintaining control over the process, the outcome and any legal obligations. Emphasising sourcing and pre-contract risk assessment, it promotes a more pre-emptive approach than traditional risk management and business continuity.

Risk management and business continuity functions are key to the defence but, as the figures below show, many procurement professionals are not yet collaborating to manage risk. Only about half of those surveyed

said they feel able to undertake a cost benefit analysis for costs associated with risk becoming an incident with their supply chain. And a similar number (47%) believe that asking for a business continuity plan is sufficient to understand risk.

### Taking control

Establishing resilience across the supply chain can be broken down into four key activities: recognition; analysis; assessment and mitigation. It starts with understanding the opportunity for risk, the level of damage that would be done, and the likelihood of its occurrence. This indicates where the effort should be focused, complementing those of risk management and business continuity.

Setting up a business-wide process will not only protect the company, but will give procurement professionals the opportunity to increase their influence and contact with the board.

*\* A guide to supply chain resilience will be published at the CIPS UK Annual Conference in October, with full guidelines being launched in the new year.*

### SUPPLY CHAIN RESILIENCE

Survey results shows more can be done

#### What makes a resilient supply chain?

64%

BELIEVE RISK MANAGEMENT AND BUSINESS CONTINUITY ARE BOTH INVOLVED

#### Can you measure the cost of disruption?

50%

FELT UNABLE TO CONDUCT A COST BENEFIT ANALYSIS OF RISK OF INCIDENT

#### Supplier business continuity plans

70%

WHO ASK SUPPLIERS, DO SO AT PRE-QUALIFICATION STAGE

#### Post award checks

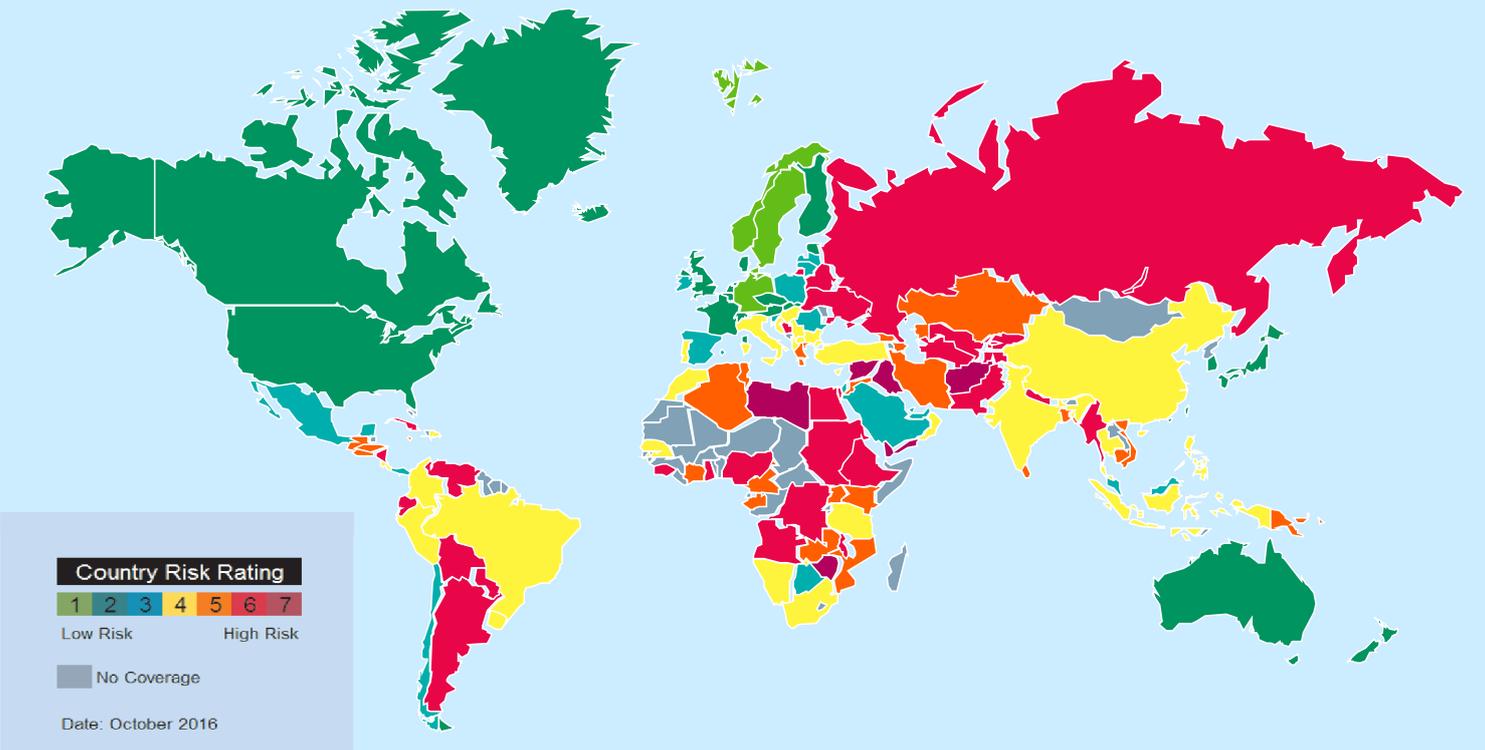
17%

DO NOT MONITOR RECOVERY STRATEGIES AFTER AWARDING A CONTRACT

## Do you have risk strategies in place?

SUPPLY-CHAIN RISK MITIGATION	YES ALWAYS 40.6%	SOMETIMES 45.8%	NO NEVER 13.6%
SUPPLY-CHAIN CONTINUITY PLAN	YES ALWAYS 41.4%	SOMETIMES 40.5%	NO NEVER 18.1%
ONE-OFF SUPPLIER RISK MITIGATION	YES ALWAYS 48.2%	SOMETIMES 43.3%	NO NEVER 8.5%
ONE-OFF SUPPLIER CONTINUITY PLAN	YES ALWAYS 45.7%	SOMETIMES 40.1%	NO NEVER 14.2%

# Country Insight - Heat Map



## Global supply chain risk grows as international commitment to globalisation falters

- Global supply chain risk climbed to 81.6 in Q3, the third consecutive increase
- Brexit vote raises questions about the future of globalisation
- Emerging markets remain weighed down by persistently low commodity prices and sluggish global trade

Global supply chain risk grew for the fourth consecutive quarter as the CIPS Risk Index, powered by Dun & Bradstreet, rose to 81.6 in Q3 2016 from 80.8 in Q2. The figure is the highest since 2013 and has been driven by increases in supply chain risk in Western and Central Europe, Eastern Europe, the Middle East, Latin America and Sub-Saharan Africa.

### [TABLE/VISUAL]

#### Global supply chain risk Q3 2016

The Index, produced for the Chartered Institute of Procurement & Supply (CIPS) by Dun & Bradstreet economists, tracks the impact of economic and political developments on the stability of global supply chains. The upward trend in supply chain risk is in part driven by a disintegration of the political consensus over globalisation, with the World Trade Organisation reporting an average of 22 new trade restrictive measures a month in its latest report.

This trend is clearest in **Western Europe**, where risk rose to 2.63 in Q3 from 2.60 in the previous quarter. The uncertainty around the post-Brexit relationship between the UK and the European Union has had a negative impact on trade and business sentiment in the UK and across the region. In the UK, the resulting currency volatility is having an immediate effect on British businesses with suppliers starting to push up prices in reaction to the weaker British pound. A brief stand-off between Tesco and Unilever looks to be only the first of many challenging negotiations for British procurement teams. Supply chain managers will be waiting to see where the pound settles before making any long-term decisions but even the most prepared procurement teams will see their currency hedging begin to run out in the coming months. The situation is rosier for British exporters, however, who are becoming more competitive as a result of the depressed pound. The full Q3 report advises businesses to keep a close watch on Brexit negotiations as tariffs are at risk of constant change.

In addition, growing disillusionment with globalisation is contributing to political risk. Elections over the next 12 months are expected to see gains for far-right parties with France's National Front, Italy's Five Star Movement, the Freedom Party in the Netherlands and the German Alternative for Germany all sceptical of European integration and hostile towards free trade. An agreement between Turkey and the EU to manage the flow of migrants from the Middle East has seen some temporary border controls within the common market repealed this quarter, reducing supply chain disruptions. However, with the military situation in Syria worsening and anti-immigration parties gaining momentum, European supply routes remain uncertain.

Supply chain risk in **North America** remains static at 2.101, but both Canada and the USA have seen trade agreements with the European Union stall this quarter. Regardless of the result of the US election, both Donald Trump and Hilary Clinton have expressed concern about the Transatlantic Trade and Investment Partnership (TTIP), while in Canada the Comprehensive Economic and Trade Agreement (CETA) has been derailed by a regional parliament in Belgium.

Persistently low commodity prices, are deepening the cash flow crisis for oil exporters in **Eastern Europe and Central Asia, the Middle East, North Africa** and **Sub-Saharan Africa**, damaging payment performance and heightening risks for supply chains which pass through. In Eastern Europe and Central Asia, risk has risen to 5.424 from 5.396, following a failed coup in Turkey which is likely to see an increase in interference with businesses. Supply chain risk has also deteriorated in the Middle East and North Africa from 4.406 in Q2 to 4.413 in Q3, where civil war has all but eliminated international supply chains in certain countries. Finally, Sub-Saharan Africa continues to have the world's highest levels of supply chain risk, increasing further from 5.544 to 5.558 with Nigeria slipping into technical recession and South Africa narrowly avoiding one.

**Asia Pacific** has bucked the trend this quarter with supply chain risk decreasing marginally from 3.424 in Q2 2016 to 3.415 in Q3. Australian suppliers, in particular have benefited from rising coal and iron ore prices together with an increase in national defence spending. In the short-term, Australian businesses are showing improved payment performance, but the country's reliance on temperamental Chinese demand continues to pose risks.

Elsewhere in Asia, logistical routes have come under pressure. Super typhoon Meranti has caused disruption to flights, ports, rail schedules and power supplies in Taiwan. Winds of 150km/h have forced the temporary closure of two nuclear power stations but the country's robust building code has mitigated against long-term disruptions. In South Korea, meanwhile, the world's 7<sup>th</sup> largest shipping company, Hanjin Shipping, went bankrupt in August, reducing global shipping capacity by 3% and leaving a cargo as large as \$14bn unable to dock. The bankruptcy is likely to have wide-ranging impact on trans-Pacific and Asia-Europe supply chains.

**John Glen, CIPS Economist and Director of the Centre for Customised Executive Development at The Cranfield School of Management said:**

*"Supply chain managers are facing a new wave of impediments to the flow of goods across borders.*

*"With international trade deals under threat around the world, supply chain managers must be as aware of political risks as they are of natural disasters and economic hardship.*

*"Skilled supply chain managers are adept at managing the short term supply chain disruptions but with supply chain risk returning to record levels, businesses must be continually vigilant in vetting their suppliers and preparing contingency plans."*

**Bodhi Ganguli, Lead Economist, Dun & Bradstreet**

*"Political and economic uncertainties continue to weigh on global business sentiment, and this unease about the state of the global economy is reflected in the decline of the CIPS Risk Index since Q4 2014. The CRI from late 2014 and into 2015 indicated the travails in emerging markets, and the continued failures of major developed economies to escape the slow-growth trap of the post-financial crisis era.*

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**Notes to Editors:**

**About the CIPS Risk Index, powered by Dun & Bradstreet:**

First launched in April 2014, the CIPS Risk Index, powered by Dun & Bradstreet, is a composite indicator of pressures acting upon supply chains globally. The Index analyses the socio-economic,

physical trade and business continuity factors contributing to supply chain risk across the world, weighting each score according to that country's contribution to global exports.

The Index helps sourcing professionals understand the risks to which their supply chains are exposed, articulate questions and scenarios for key suppliers, inform assurance activities, check the readiness of contingency plans, support the negotiation of risk transfer in contracts, and establish factors which may impact the financial stability of tier one and sub-tier suppliers upstream. Regular production of this Index will help procurement and supply professionals communicate and justify risk-informed sourcing decisions and support effective Supplier Relationship Management.

**About the Chartered Institute of Procurement & Supply:**

The Chartered Institute of Procurement & Supply (CIPS) is the leading international body representing purchasing and supply management professionals. It is the worldwide centre of excellence on purchasing and supply management issues. CIPS has a global community of 115,000 in 150 different countries, including senior business people, high-ranking civil servants and leading academics. The activities of purchasing and supply chain professionals have a major impact on the profitability and efficiency of all types of organisation and CIPS offers corporate solutions packages to improve business profitability. [www.cips.org](http://www.cips.org), @CIPSnews.

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