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Knowledge Transfer With Tangible Results

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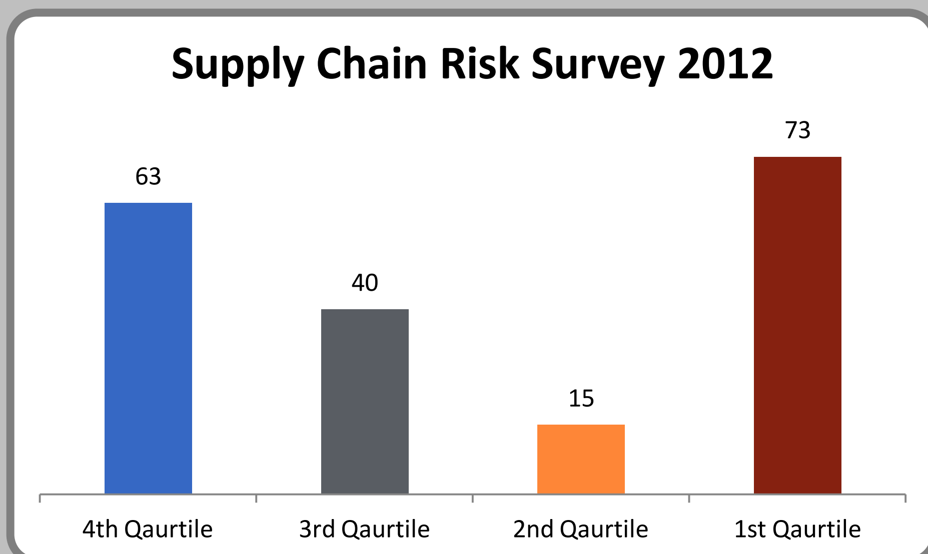
Supply Chain Risk Survey 2012

Mostly stable, but there have been some dramatic changes

Supply chain risk is something that has always been present in world trade. Wars have interrupted oil supplies, political instability has had its impact on the mining of rare metals, economic turmoil has influenced a company's ability to move merchandise and natural disasters have caused damage and destruction to factories. What has changed in the last twenty years is the emergence of the interconnected global economy. We rely on China for textiles, Taiwan for computer chips, Japan and Thailand for automotive components and the United States for their large consumer market. There are many more examples of how an event in one part of the world can impact the entire world economy. The best example recently was the tsunami that hit Japan and the subsequent disaster at the Fukushima nuclear plant. The disruption in Japan was obvious, but one of the knock-on effects was a severe shortage of auto parts in the United States for several months afterwards.

In our Supply Chain Risk Survey, we have ranked 191 countries and territories according to four types of risk: security, political, economic and natural. Security risk is defined as the danger to individuals doing business in a particular country e.g. the risk of kidnapping. Political risk is defined separately since we observe many situations where a country is politically stable but it is still quite dangerous to do business. An example of economic risk would be the melt-down in the fortunes of the Greek public finances.



And not to be ignored is the risk of natural disaster. Superstorm Sandy effectively shut down a large chunk of the North-Eastern United States for three days. Many factories were damaged and remained without power for a much longer period. Back in 2010 the Eyjafjallajökull volcano in Iceland knocked out Northern European air transport for nearly a week.

The chart divides the 191 countries and territories into four quartiles of supply chain risk, with the first quartile considered the safest places to do business and the fourth quartile being the riskiest. Of the 63 countries and territories that are in the fourth quartile, there will be different reasons for earning that rank. For example Bangladesh is not there because of security or political concerns, but due to the risk of flooding. Belize is there due to the risk of sovereign default. Myanmar is in the same group due to ongoing political instability. The first quartile includes countries like Botswana, Malta, Barbados and Brunei since they all score well in each of the components being measured.

Stability can disappear quickly

It should be no surprise to see countries like Afghanistan right at the top of the list of riskiest places to do business. But the two that have entered the top ten only in the last two years are Syria and Mali. By African standards Mali had undergone an economic transformation in recent years and had twenty years of seemingly stable democracy. But the insurgency in the north and an army coup has plunged large parts of the country into instability. Equally in Syria, what started as street protests similar to those that happened in Egypt has spiraled into a civil war that is engulfing most areas of the country.

Top Ten Riskiest
Afghanistan
Gaza Strip
Syria
Somalia
Yemen
Libya
North Korea
Democratic Republic of Congo
Mali
Haiti

From the perspective of the global economy, the only saving grace is that most of the countries in the top ten list have a limited impact on global trade. When we weight our risk measure by gross domestic product (GDP) of each country a very different picture emerges. Now the top ten is headed by the United States. This is because of the risk of natural disaster coupled with the fact the United States makes up such a large proportion of global GDP. But we equally see China, India and Brazil – the world's fastest growing economies - on the same list. This indicates that the possibility of major supply chain disruption is increasing as the global economy is increasingly interconnected.

Top Ten Riskiest when weighted by GDP
United States of America
Japan
China
Italy
Germany
France
Brazil
Russia
India
United Kingdom

Protection is available

When these supply chains are disrupted the financial penalty can be very high. Revenues will be lost, penalty payments may be incurred with customers, and additional capital expenditure may be required. The traditional argument is that supply chain risk is a very good case for not single sourcing. While this is true, for a lot of industries the cost pressures are so high that they have not been able to seriously consider dual or multi-sourcing of products. And even if dual-sourcing was viable, in many cases the competing suppliers are geographically very close to each other so the risk is not mitigated. This is especially true in China where whole cities can be devoted to manufacturing one set of products.

Another potential answer that is emerging is insurance. The global insurance industry has recognised the risks involved and have developed specific insurances to protect their clients against supply chain risk. It is estimated that single sourcing on a global scale increases your risk of supply chain disruption by up to 70%. These insurances will cover you in the event of IT failure, delivery delays, natural disasters, supplier insolvency and labour disputes but will not cover you in the event of war, terrorism, pandemics, fraud or quality issues. So even though insurance is helpful in many situations, it is not the panacea for supply chain risk.

Conclusion: Risk still needs to be managed

So no matter what your circumstances are, supply chain risk needs to be continually managed. We have seen previously stable countries descend into mayhem very quickly and a whole host of natural disaster across the world. If the forecasters are to be believed, we should expect the severity and frequency of natural disasters to increase in the coming years. While those events remain unknown at this time, it is imperative that companies have processes in place that recognise the risks involved and their potential financial impact. This analysis should then be factored into sourcing strategies to ensure that supply chain risks are being effectively recognised and mitigated.

1	Afghanistan	30	Georgia	64	Indonesia	88	Jamaica	119	New Zealand	146	Czech Republic
1	Gaza Strip	30	Papua New Guinea	64	Argentina	88	Macedonia	119	Vietnam	146	Qatar
3	Syria	30	Central African Republic	64	Nigeria	88	Nicaragua	119	Morocco	146	Kuwait
4	Somalia	30	Djibouti	64	Ukraine	88	Malawi	119	Ecuador	146	Slovakia
5	Yemen	30	Solomon Islands	64	Azerbaijan	88	Fiji	119	Bulgaria	146	Croatia
6	Libya	38	Greece	64	Sri Lanka	88	Palau	119	Uzbekistan	146	Oman
6	North Korea	38	Egypt	64	Ghana	88	Tuvalu	119	Serbia	146	Luxembourg
8	Democratic Republic of Congo	40	Colombia	64	Kenya	104	China	119	Turkmenistan	146	Slovenia
9	Mali	40	Angola	64	Ethiopia	104	India	119	Bahamas	146	Uruguay
9	Haiti	40	Dominican Republic	64	Bolivia	104	Spain	119	Mongolia	146	Lithuania
11	South Sudan	40	Tunisia	64	Uganda	104	Turkey	119	Montenegro	146	Costa Rica
12	Pakistan	40	Myanmar (Burma)	64	Nepal	104	Taiwan	119	Cape Verde	146	Macau
12	West Bank	40	Cameroon	64	Senegal	104	South Africa	119	Maldives	146	Panama
12	Zimbabwe	40	Cyprus	64	Albania	104	Chile	119	Seychelles	146	Latvia
15	Iran	40	Bahrain	64	Laos	104	Romania	119	Samoa	146	Estonia
15	Sudan	40	Tanzania	64	Moldova	104	Hungary	119	Comoros	146	Botswana
15	Chad	40	Trinidad and Tobago	64	Rwanda	104	El Salvador	119	Micronesia	146	Brunei
15	Timor-Leste	40	Gabon	64	Tajikistan	104	Zambia	146	Germany	146	Namibia
19	Algeria	40	Iceland	64	Mauritania	104	Guyana	146	United Kingdom	146	Mauritius
19	Côte d'Ivoire	40	Equatorial Guinea	64	Sierra Leone	104	Bhutan	146	Netherlands	146	Malta
19	Cambodia	40	Congo	64	Burundi	104	Antigua and Barbuda	146	Switzerland	146	Monaco
22	Bangladesh	40	Mozambique	64	São Tomé and Príncipe	104	Marshall Islands	146	Poland	146	Barbados
22	Western Sahara	40	Burkina Faso	64	Nauru	119	United States of America	146	Sweden	146	Swaziland
22	Iraq	40	Benin	88	Japan	119	France	146	Norway	146	Andorra
22	Eritrea	40	Kyrgyzstan	88	Italy	119	Brazil	146	Austria	146	Lesotho
26	Cuba	40	Guinea	88	Russia	119	Canada	146	Denmark	146	San Marino
26	Belarus	40	Suriname	88	Venezuela	119	Australia	146	United Arab Emirates	146	Saint Lucia
26	Armenia	40	Togo	88	Thailand	119	South Korea	146	Finland	146	Grenada
26	Belize	40	The Gambia	88	Portugal	119	Belgium	146	Malaysia	146	St. Vincent and the Grenadines
30	Lebanon	40	Liberia	88	Peru	119	Saudi Arabia	146	Hong Kong	146	St. Kitts and Nevis
30	Bosnia and Herzegovina	40	Guinea-Bissau	88	Guatemala	119	Ireland	146	Singapore	146	Dominica
30	Honduras	64	Mexico	88	Jordan	119	Kazakhstan	146	Israel		

About Informita

Informita was formed to act as an advisor to companies in the areas of working capital and procurement, focusing on Analytics, Implementation and Advisory. Informita is there to support your working capital and procurement programmes from cradle to grave in a cost efficient and effective manner. Our people have a mixture of deep industry and consulting experience across many sectors and geographies. This gives us the ability to bring insights across many industries and cultures.

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