

# Mitigating supply chain risk

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The current coronavirus (COVID-19) pandemic has put a lot more focus on supply chain risk management, and it will take on increasing importance across corporate America and global supply chains worldwide.

Risk management has always been important, but this crisis, as well as other notable natural disasters, has made the vulnerability of corporate supply chains highly visible.

COVID-19 is not the first major disruptor to global supply chains and it won't be the last. The devastating tsunami in Japan kept the auto industry reeling for

months, and horrible flooding in Thailand affected the supply chains of many computer manufacturers dependent on hard disks. These are just a few of the more visible natural disasters that have caused major disruptions in business.

Today, the coronavirus is putting the spotlight on global supply chains and you can expect boards of directors to ask probing questions of their CEOs as to how they are prepared to deal with the next big supply chain interruption.



The focus on risk mitigation will become a number one priority for supply chain executives. Risk management is not a “nice to have”... it’s a “must have”

Companies must diversify manufacturing, as well as their sources of supply, away from any one country or company and, if feasible, create a regionalized network to serve global demand. Having learned a big lesson from this most recent pandemic, countries will be focused on developing “domestic supply chain independence,” so that in a national emergency, they won’t ever again be put in a situation where they are reliant on importing vital medical supplies.

Just like any prudent individual investor, it makes sense to diversify risk. Companies must stay away from putting all of their eggs in one basket. That’s easier said than done, because global supply chain management is complex and takes time. Here are six ideas to help you take action immediately.

### **Risk mitigation approaches to consider**

Keep in mind the following approaches when evaluating your supply chain network:

1. The most basic rule is to avoid manufacturing or sourcing everything from one location or from one company. Maintain alternative sources of supply. It is not simply about reducing reliance on China or any other single country, but to evaluate the upstream sources to lessen risk of disruption. A shift from China to Southeast Asia, India or Mexico for example, will require you to reevaluate your domestic distribution network to ensure it is aligned.
2. Develop a “port diversification” strategy. Although it might be more efficient and effective to import through one specific port, any type of disruption can shut down your business.
3. Maintain additional inventories of critical items. In a world of low interest rates, create regionalized buffer stocks of essential parts, raw materials and/or finished goods in alternative distribution locations in the event of an emergency so you can continue to satisfy customer demand.



4. Invest in locations that can provide multimodal transportation options. Look for distribution solutions that are in close proximity to parcel hubs or intermodal rail terminals to mitigate the risk of tightened trucking capacity or skyrocketing freight costs.
5. Invest in automation. Retaining skilled labor has been a big challenge for companies globally given the high demand for people, driven in large part by ecommerce. As the cost of investment comes down in this high growth area, explore opportunities to lessen your reliance on people.
6. Build in network redundancies. Companies should periodically evaluate their supply chain networks to ensure they have the most service-effective and cost-efficient solutions in place that provide overlaps in the event of a shutdown in one of their locations.

Companies shouldn't take for granted the ease of doing business in the United States. Despite the real and serious concerns about the aging supply chain infrastructure, the ability to flow goods into and throughout the U.S. is far better than anywhere else in the world.

There are significant risks for companies that do not put the spotlight on risk management and who are not proactively thinking about and managing their supply chain risks. It's always something you should be thinking about.

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