



# Holding It All Together

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## Supply Chain

Nature has a way of reminding us that we are at its mercy. While we've made remarkable technological advances to guard ourselves, our businesses, and our complex supply chains against natural disasters, nature remains a formidable foe. Globalized markets link continents — from the world's smallest village to its largest cities. In cyberspace, there is so much online activity that it is now measured in zettabytes. Even our bodies are increasingly connected to the web through biotechnology (smart contact lenses) and wearable technology (smart watches). With technology omnipresent, it can be easy to forget that Mother Nature reigns supreme... and then, she reminds us.

### When It Rains...

The 2017 hurricane season won't soon be forgotten — with 16 named storms, including major hurricanes like Harvey, Irma, Maria, and Nate. Harvey, a storm of epic proportions, was quickly dwarfed by Irma. Miami was largely spared, but Irma torqued and hit the west side of Florida. A stroke of luck sent the tide outward in Tampa, preventing a flood disaster of terrible proportions in an underprepared city. As if that wasn't enough, two enormous earthquakes shook Mexico City and a storm called Ophelia even reached Ireland, which rarely faces these kinds of threats.

Despite technological advances, the physical infrastructure — buildings, roads, utilities, etc. — that underpins our complex web of communication, delivery, economic interaction, and supply chain was hard hit. Hurricane Maria single-handedly devastated Puerto Rico, resulting in pharmaceutical and drug shortages spreading far beyond the island. Although it's too soon to accurately assess the impacts of these events, it's certain that supply chain networks and resources will be strained for years to come, and the economic consequences will be dire and the recovery phase extensive. Although there are a range of estimates, the cost of these disasters will be in the hundreds of billions, much of that for uninsured losses.

What isn't difficult to determine is that organizations must invest in resilience as a cost of doing business. From managing increasingly complex supply chains to overseeing organizations in crisis when natural disasters occur, it is essential that organizations have effective supply chain resilience strategies in place.



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disruption rather than the causes. It is tempting to spend precious planning time focusing on mitigation measures aimed at specific threats (hurricane, earthquakes, fires, floods, etc.), but that leaves organizations open to everything else. However, by focusing on the effects, plans are immediately made more flexible and useful. If a manufacturing facility is taken out, the cause isn't the most important factor. Whether it's a hurricane, fire, flood, or other event, what matters is that the organization has a plan to meet the demand for its product.

Business continuity is a management process that identifies risks and vulnerabilities that could impact the ability for operations and processes to be resilient or, in other words, to bounce back. The business continuity framework helps build organizational resilience and the capability for an effective response to disruption. By devoting time to a process known as business impact analysis, organizations can respond quickly and effectively to protect operations, significantly reducing both damages and costs. Businesses need to assess their vulnerabilities, determine the impact of those events, and create plans for operating under duress. The key is to focus on critical business functions and ensure that they are both efficient and resilient.

Another important business continuity tenet is that plans are living documents that must be exercised and adapted. Every time an incident occurs, organizations have the opportunity to test their plans, discover what worked and what did not, and then improve plans based on lessons learned. By hosting dedicated debrief sessions, they can determine whether they applied best practices and whether anything new has been learned.

From the supplier perspective, the more prepared an organization, the more attractive it is to larger organizations which increasingly seek suppliers with documented, tested business continuity plans. Similarly, cities that want to establish or retain their status as attractive business hubs must cultivate an economic ecosystem that is robust enough to withstand challenges — one great way to do that is by encouraging and supporting the resilience efforts of small businesses.

For example, small business accelerators and start-up hubs should change their focus after a disaster; everyone who was a small business owner before is now an entrepreneur and will need resources and access to capital in order to recover. We saw this implemented successfully in New Orleans after Hurricane Katrina. Collectively, small businesses are the largest employer in the U.S. and access to financing and support will help them be resilient and ensure that cities retain the unique flavor provided by their local business communities.

Broadly speaking, resilience also should be an indicator for investors, a requirement for obtaining capital investment in the first place, and a criterion of doing business with a potential supplier. That process improvement would help everyone on the preparedness side.



The best way to do that is to rely on business continuity expertise to help protect an organization's people, processes, and reputation, as it is the role of business continuity professionals to shield their organizations and supply chains from harm and enable them to continue to perform.

### **Critical Supply Chain Impact**

The recent plethora of natural disasters will impact many supply chains. We have seen breakdowns in critical transport infrastructure (roads, railways, and ports), as well as other key infrastructure disruptions (access to power and the internet). Nimble organizations with solid business continuity programs already had tested plans in place that may have included diversifying supply chains, rerouting shipments, and stockpiling key inputs. While some organizations were able to plan and react their way out of the worst, we will see an economic impact for years to come as a result of revised sales forecasts, reduced domestic oil production, disrupted air travel, and more.

Since Houston is a hub and the nation's fourth largest city, disruption there will have a particularly significant effect on the U.S. economy, particularly in terms of supply chain, sales forecasts, reduced refinery output, and port disruption. Houston's economy is built on the oil and gas industry, but has diversified to include important investments in other areas such as aerospace, healthcare, and biomedical research. The port is an essential entry point for Latin American and Caribbean food imports. One of the most far-reaching supply chain issues will be the Houston-made plastics and chemicals that serve as inputs for many products. Houston has become a major corporate center and the cost of Harvey alone could reach the high billions when considering the impact on transportation, the power grid, the work force, and the rest of the network of economic activity that supports leading local sectors.

From a human standpoint, there is a disaster in Houston. From a business standpoint, there is a disaster beyond Houston. That's why it's important for all organizations to understand that their supply chains can be disrupted even if there was no immediate damage to their facilities, people, or internal processes. Organizations can use the business continuity framework to anticipate challenges and build structured response plans to protect core competencies against the potentially devastating effects of prolonged shortages. Resilience is not just important for customer-facing brands: a problem that stems from an upstream supplier, which may be a much smaller company with fewer resources to cope under duress, can damage *any* brand. It is a competitive advantage for companies to have a resilient supply chain that will make them better able to respond to a disruption than their competition.

### **Shoring Up Supply Chains**

We can't predict the future. We don't know what will happen next. But we can decide what our reactions will be. The key is to focus on preparing for the negative effects of an incident, like a hurricane, and protecting the critical business functions of the organization. According to the nonprofit Disaster Recovery Institute (DRI), business continuity principles turn traditional thinking around by focusing on the effects of

disruption rather than the causes. It is tempting to spend precious planning time focusing on mitigation measures aimed at specific threats (hurricane, earthquakes, fires, floods, etc.), but that leaves organizations open to everything else. However, by focusing on the effects, plans are immediately made more flexible and useful. If a manufacturing facility is taken out, the cause isn't the most important factor. Whether it's a hurricane, fire, flood, or other event, what matters is that the organization has a plan to meet the demand for its product.

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## Hitting Home

Businesses also must consider the impact of disasters on their personnel and the community. People are the most important resource of any organization. With the ever-present pressure for efficiency, many business continuity, risk management, and supply chain management programs have been merged, restructured, or scaled back. That leaves fewer hands on deck when it comes to dealing with a disaster. In the case of the recent hurricanes, just as one was wrapping up, another was on the way, and then another, and another. That causes considerable personnel strain, especially when resilience professionals are in response mode working long days and their programs have been cut more than is prudent. Additional resources must be allocated to these departments in order to ensure that they will be effective.

It is also important for organizations to recognize that all of their personnel may be under additional stress, whether at home or in the office, as the result of community-wide disruptions. Management should take an empathetic approach during the initial phase of the recovery. It will be essential to understand the human aspects of the disaster first. Leaders may need to adjust their usual management style to better support their team during the recovery phase. Employees might be physically back in the office but mentally still coping with the disaster and its effects. In a difficult situation, flexibility is essential to help the team feel comfortable and safe as they return to the workplace. Employees may need flexible hours or the ability to work from home until their usual routines are restored, so rigid policies may need to be relaxed for a time as the community returns to normal.

Increasingly, large organizations are expected not only to take care of themselves, but also to reach out and offer help to their customers, suppliers, and communities. They have an obligation to use their position of leadership to help limit the terrible human cost of disasters by doing everything they can to prepare, respond, and recover.

Lives have been disrupted this hurricane season, and in the worst cases, lives have been lost. While our systems have made advances to reduce the human cost, we can't rest until we reach zero impact in terms of the loss of human life, strengthen our communities to better withstand the devastating effects of these events, and shore up our supply chains to keep our business up and running and our economy healthy.

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