



FOOD FOR THOUGHT — MARCH 2020

Take a Risk-Agnostic Approach to Supply Chain Problems

Whether to manage a pandemic or other risk, food and beverage companies need to understand their entire supply chains, identify vulnerabilities, and take action when problems arise.

Today's supply chains seamlessly zigzag around the world, crossing borders and time zones. While the global nature of supply chains has led to greater efficiency and better selection, it has also increased the reach of risks that can disrupt or altogether halt the flow of products as they travel to their destinations.

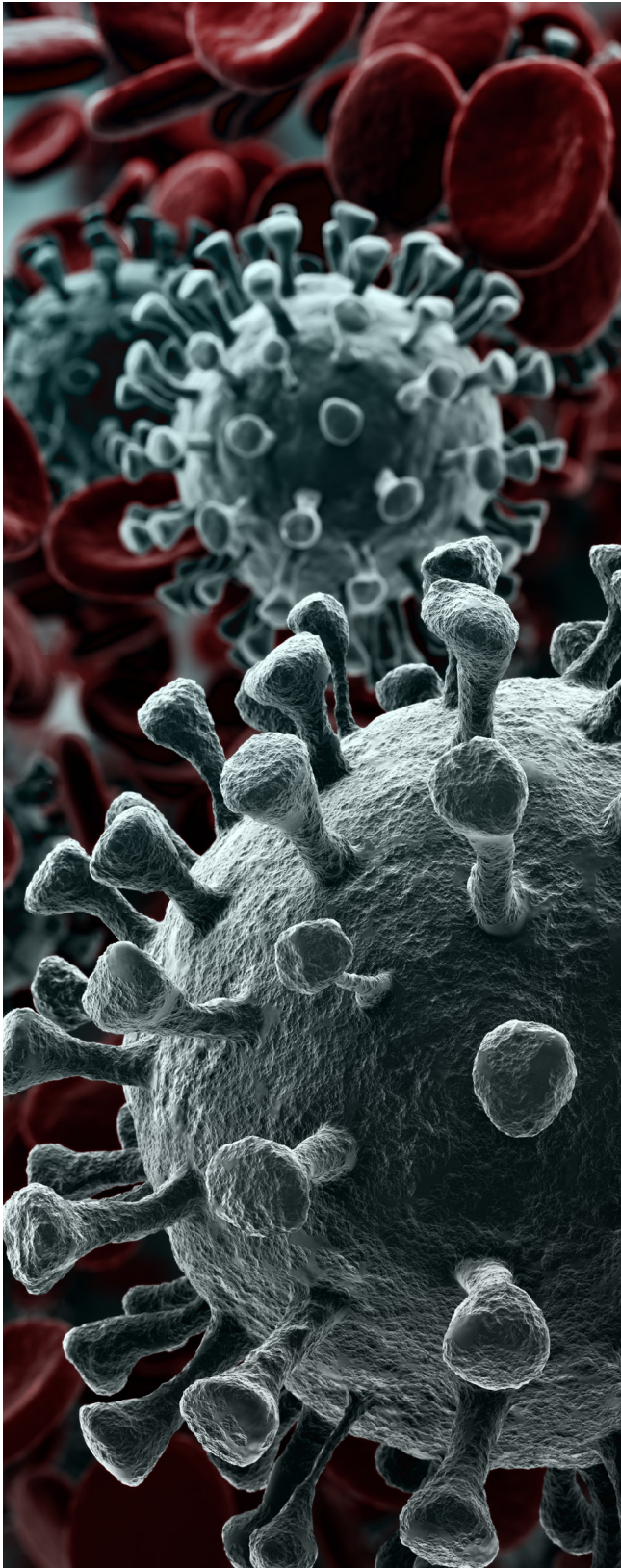
Food and beverage supply chains are only as strong as their weakest links, and a break at any point can effectively shut down a business. The current COVID-19 pandemic has shown just how fragile supply chains can be: Even when the virus was largely restricted to China's Hubei region, the effects resonated around the world, causing immense disruptions and creating significant uncertainty for businesses.

Now that COVID-19 has been officially declared a global pandemic and a national emergency in the US and many other countries, the effects are expected to be even greater. [Research](#) by the Institute for Supply Management found that nearly 75% of companies with supply chains had experienced disruptions through mid-March 2020, with transportation restrictions among the main causes.

As the pandemic continues, manufacturers are experiencing workforce reductions, whether due to employees falling ill, the need to care for sick relatives, or mandatory quarantines. If these businesses' suppliers experience the same challenges, it will mean that they cannot obtain essential products or ingredients. The result will be a slowdown, or even complete halt, in operations.

Let's take the example of a condiment manufacturer. The company has not yet been directly affected by COVID-19, but its tomato supplier in Latin America is closed due to mandatory quarantines. Without that essential ingredient, production must be halted. Other perishable ingredients soon go bad as the manufacturer scrambles to find an alternate supplier.

To date, effects on food and beverage companies have generally been limited, but that will likely change. Food items that are imported into the US will take longer to arrive. And high demand for cleaning and sanitizing chemicals is likely to lead to shortages at a time when businesses are stepping up their cleaning schedules to keep employees and products safe.



In a constantly evolving situation such as the COVID-19 pandemic, it's essential to look beyond the immediate challenges taking place and try to forecast the effect that future actions could have. For example, what if schools in a specific country are closed and employees cannot work? Do you have suppliers in that region? If so, what are their contingency plans? And do you have an alternative source?

Myriad Supply Chain Threats

Food and beverage supply chains depend on several interconnected factors. Together with COVID-19, the following trends can pose significant threats to supply chains:

- **Severe weather and natural catastrophes.** Whether they destroy crops, disrupt transportation systems, or halt production, severe storms, hurricanes, earthquakes, and other weather events and catastrophes can have a major impact on your supply chain. And this risk is expected to intensify in the years ahead: According to the [*Global Risks Report 2020*](#), prepared by the World Economic Forum with the support of Marsh & McLennan, the top five long-term risks for businesses are all related to the environment. Since this means a greater likelihood of future disruptions, businesses must analyze and forecast the potential effects on their supply chains and create contingency plans that allow them to respond with agility.
- **Increased geopolitical pressures.** Global trade challenges in 2020 are expected to lead to persistent political and economic uncertainty for businesses, according to Marsh's recently published [*Political Risk Map 2020*](#), and supply chains are certainly not immune to these pressures. Aside from the possibility of trade disputes leading to bans on imports, businesses also must consider the potential for tariffs to affect pricing and the availability of downstream products.
- **Cyber and information security.** Supply chains are increasingly dependent on connected technologies. But while the era of connectivity has made communication easier and supply chains more agile, we are also seeing new vulnerabilities. A cyber event could completely paralyze entire supply chains, as we saw during 2017's notPetya attack, which had resounding — and costly — repercussions on businesses, some of which were unable to access vital supplies. Hackers, too, have honed their skills and can bring production lines to a halt or make potentially destructive changes to automated processes.

- **Product contamination and defects.** Reputations could be at stake when potentially contaminated food and drink make their way to consumers. For food and beverage companies, making sure their products are safe is of paramount importance. When talking about perishable products, it's imperative that your suppliers maintain high standards and have systems in place to identify issues early and take corrective measures. This could mean that suppliers sometimes cannot fulfill their sales agreements, which is why your contingency plans should include identifying alternate suppliers and strategies that allow you to continue operations.

Map Your Supply Chain

Supply chain risks are both diverse and extensive. It may seem like a close-to-impossible task to have a plan in place for each of the potential risks that can affect your suppliers — and their own suppliers — and, in turn, disrupt your operations.

The good news is that you don't have to. Instead, you should take a risk-agnostic approach to preparing a supply chain contingency plan. The first step is to identify your crucial products, ingredients, or services.

Every food and beverage business will have its unique needs. For our condiment manufacturer, that means tomatoes. If you're a chocolate manufacturer, it could be cocoa beans. If you're in the business of producing chicken nuggets, you can't operate without poultry. And while you might have a great relationship with a particular supplier, you need to consider what happens if they cannot fulfill your order or get essential products to you on time.

Once you have identified your crucial resources, start to look at the entire supply chain that gets those products to your business, going as far back as you can. Identify what your suppliers depend on to produce the items that you need, and what their own suppliers need.

When you have a vision of the entire supply chain, start to identify the potential vulnerabilities at each step. If, for example, there's a natural catastrophe in an area where a supplier down the chain has its main operations, you can immediately start to inquire about the potential impact on your deliveries instead of waiting until your own supplier informs you of a problem.

The need to be agile in addressing problems cannot be emphasized enough, especially when it comes to perishable products. What can you do if, for example, one of your essential products is not allowed entry into a port due to a trade dispute with the country of origin? If this happens, your competitors might also face similar challenges. It is therefore essential to have already identified alternative suppliers that you can source your products from and, ideally, already discussed pricing. Additionally, a best practice is not to rely on an individual supplier for your essential resources.

Take a Collaborative Approach

Addressing and countering supply chain vulnerabilities requires a coordinated and cohesive company-wide approach rather than a fragmented one. It is very likely that different parts of an organization are in charge of specific product purchases; a packaged salad manufacturer might have one department in charge of ordering the ingredients while another is responsible for the packaging, both of which are essential to get the finished product on retailers' shelves. And if there are problems with the regular packaging supplier and the company is going to use a different product, they might need to make changes to the food production process. Thus, it is important to bring all the stakeholders around the same table to discuss all supply chain challenges.

Finally, food and beverage risk professionals should take time to review their insurance coverage and discuss with their brokers or insurance advisors how these are likely to respond to a break in supply chains, making sure to consider any exclusions.



This briefing was prepared by Marsh's Food and Beverage Practice, in conjunction with Marsh's Risk Consulting, Marine, Cyber, and Product Contamination practices.

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