

Middle East Unrest, Global Economic Instability



INSIGHT Inc., a top international provider of supply chain planning solutions for the world's foremost companies, reminds companies that in an era of globe-spanning operations, multiple events over the past year once again underscore the critical need to develop comprehensive business continuity plans in light of supply chain vulnerabilities.

“Heightened risks and outright disruptions are coming at us at a furious pace and it is absolutely critical that firms be prepared with detailed contingency plans,” says Dr. Jeff Karrenbauer, president of INSIGHT Inc. “For example, over the past year we have witnessed significant crop failures, which roiled commodity futures. We now have strong evidence that the Chinese are stockpiling rare earth metals, substances critical to a host of industries. They have also put into place or proposed onerous local content and ownership restrictions, such as those in the automobile industry.”

Economic instability and political unrest are increasingly commonplace across the globe, calling into question the survival of governments and economic policies that underpin critical planning assumptions: cost and availability of raw materials, energy and labor, duties, taxes, exchange rates, licensing and local content restrictions, and so on. And now we are in the early stages of witnessing the impact of the real elephant in the room, turmoil in the Middle East. Oil prices were already consistently rising, even during the recession, but this clearly exacerbates the problem. What was unthinkable two months ago is now commonplace. But what has occurred thus far is a mere stroll in the park when one imagines the impact of major supply disruptions in the Persian Gulf, either in the oil-producing countries themselves or in the transit lanes. Energy prices affect every aspect of the supply chain, from source of raw material acquisition, through manufacturing to final distribution.

“Firms have a tendency to put off contingency planning until the next crisis hits,” adds Dr. Karrenbauer. “Well, guess what? They need wait no longer. The future is now.”

Impacts as varied and pervasive as those generated by raw material shortages, petroleum supply disruptions and unstable governments mandate the use of powerful analytical tools specifically designed to address global supply chain issues. The ripple effects of significant cost changes and/or capacity disruptions simply

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Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

cannot be handled by simplistic approaches such as “next best.”

“The typical reaction of management,” says Dr. Karrenbauer, “is to ask the staff to prepare some spreadsheets and perhaps monitor some key performance indicators (KPI) in a business intelligence (BI) system. Wrong on both counts. There is not a spreadsheet in existence that can handle the complex interrelationships inherent in global supply chains, and BI systems are chock full of simplistic ratios and performance ranges that are useless when it comes to professional contingency planning. Serious prescriptive analytics are worlds removed from descriptive tools.”

Yet, Dr. Karrenbauer, who has been evangelizing for years about the need for companies to understand their supply chain vulnerabilities, fears that too many companies will simply shrug their shoulders once again. “Several years ago, Aberdeen reported that only 13 percent of the companies they surveyed about this question had formally addressed supply chain vulnerabilities,” Dr. Karrenbauer mentions. “This is simply irresponsible management, a failure of fiduciary responsibility to the shareholders, because it can place the enterprise itself at risk. And if all of the above is not sufficient motivation, consider the four words that warm the heart of every attorney who has brought a corporate liability lawsuit: ‘You should have known.’”

INSIGHT performs detailed audits on supply chains to uncover vulnerabilities and offers solutions for managing and mitigating risk to enhance resiliency. A key component of the process is “war-gaming” various scenarios and developing contingency plans for each one...in advance of the possible event. The result is a strategic supply chain design that is optimally hardened against disruptions and serves as a cornerstone for a comprehensive business continuity plan. For more information, please visit www.insightoutsmart.com [1].

Source URL (retrieved on 04/25/2015 - 7:32pm):

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