Schneider White Paper

OPERATIONAL EXCELLENCE IN THE MIDST OF SUPPLY CHAIN DISRUPTION

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Operational Excellence in the Midst of Supply Chain Disruption

No supply chain is immune to disruptive forces. These disruptions range from major supplier issues, port backlogs and hurricanes, to polar vortexes and yes, even the newest coined phrase, bomb cyclones. A study conducted by the University of Tennessee assessed the top 3 perceived supply chain risks to be quality, inventory and natural disasters. Forbes recently reviewed SCM World's most recent Future of Supply Chain survey results which showed increased concerns of war, natural disasters and data security incidents. It is impossible to mitigate every risk a supply chain may encounter, but organizations can seek to minimize risk and make educated risk decisions. In this ever changing world it is imperative that supply chains be agile, flexible and resilient.

> *"In this ever changing world it is imperative that supply chains be agile, flexible and resilient."*

Schneider Supply Chain Management® (SCM) provides superior consulting, visibility and operational excellence to remove risk or minimize exposure if it cannot be avoided. You cannot predict how many Nor'easters may hit your supply chain, but you can ensure proper mitigation and agile recovery.

95% ON-TIME PICKUP AND DELIVERY

On August 26, 2017, Hurricane Harvey made landfall in Houston, drastically affecting North American supply chains. A major production plant for one of Schneider's customer's was in the direct path of destruction and became inaccessible for two weeks. This inevitably meant a shift in its production and inventory, changes to routing guides and complex logistical execution. During this crucial time, 25% of this customer's supply chain network shifted and Schneider Logistics maintained an exceptional on-time pick-up and delivery of 95%. Schneider had a deep understanding of the customer's supply chain to develop robust solutions and execute swift changes in business processes to safeguard service.

Do you know what risks exist in your supply chain?

Risk and Insurance magazine notes that not one of 110 respondents rated their company as "highly effective" at supply chain risk management. "In fact the typical supply chain manager estimates that just 25 percent of his company's end-to-end supply chain is being assessed in any way for risk."

How vulnerable is your supply chain?

1. How dependent are you on one major supplier of raw materials or products?
2. Are any suppliers exhibiting risky behavior such as delayed shipping, shipping short product or showing signs of financial stress?
3. Are any manufacturing or supplier locations at high risk for major weather events?
4. How long is transit from your suppliers? How long does this tie-up cash in inventory?
5. How variable is your customer demand?
6. Are the products or materials in your supply chain at a higher risk of theft?
7. How many silos exist in your supply chain?
8. Are carriers showing any signs of financial stress? Are they meeting their commitments?
9. Do you have visibility to inventory levels and shipments in transit?

Fastest rising supply chain risks

Respondents are increasingly concerned about a variety of threats

War, terrorism or other geopolitical issues

2016 **15%** 2017 **19%**

Natural disaster affecting supplier facilities
(e.g. earthquake, flood)

2016 **18%** 2017 **26%**

Data security/IT incidents
(e.g. cyber attacks)

2016 **30%** 2017 **44%**

ASCM World Future of Supply Chain Surveys. % of respondents: 2016 n=1,409, 2017 n=1,193 (preliminary results). Source: SCM World Future of Supply Chain surveys 2016, 2017 (preliminary results)

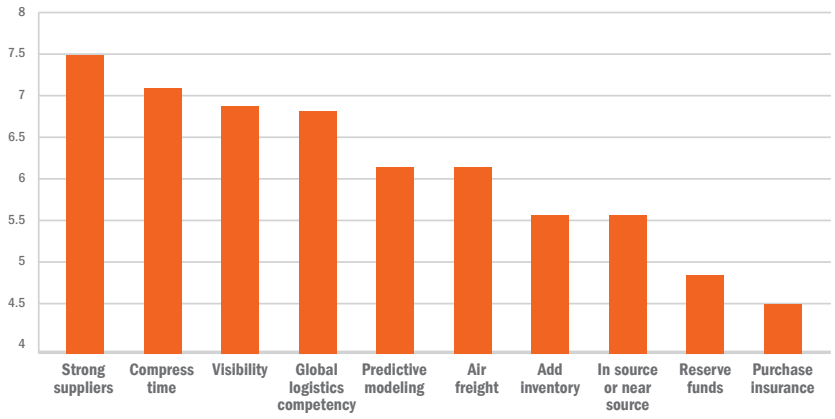
Companies that do assess risk use tools such as IBM's Total Risk Assessment, Supply Chain Risk Identification Structure (SCRIS) developed by the Council of Supply Chain Management Professionals and the Risk Exposure Index from the Massachusetts Institute of Technology. These comprehensive tools help to identify, prioritize and ultimately mitigate risk. But this is not a one and done approach. Because supply chains are ever changing, these areas of vulnerability and quantification of risk should be evaluated on a regular basis. Gartner notes this should include "end-to-end supplier risk as part of the ongoing governance structure and continuous improvement."

Once risks are prioritized, mitigation strategies can be developed and assessed on an ongoing basis. Common mitigation activities include:

- Evaluation of suppliers and sourcing reviews that aim to swap out weak or risky suppliers with strong suppliers.
- Network analysis to shorten shipping time and/or cycle time of products by changing/adding warehouse locations or shipping locations.
- Increasing visibility throughout the supply chain by way of analytics, real-time shipment tracking and score carding carrier and supplier compliance.

The top 10 supply chain risk mitigation activities according to the University of Tennessee

Preference on a scale of 1-10
(10 being most preferred)



A final example

Schneider was performing a network optimization project for a healthcare customer when a tornado destroyed one of its distribution centers. Since this was a sterilized facility, all product was scrapped and it was imperative to begin fulfilling customer orders as quickly as possible. The customer had not assessed risk across the supply chain to develop contingency plans and needed a plan to mitigate the service inefficiencies and expected sharp increases in cost due to this natural disaster.

Schneider provided an operational plan within two days which included four scenarios. The customer's initial plan would have cost $15.5M, a 37% cost increase. Schneider presented

a strategy to change the location of order fulfillments which decreased the cost exposure for this customer to $1.5M, a cost increase of only 3.5%. In addition to moving forward with Schneider's recommendation, the customer instituted a process to review and renew supply chain risks and mitigation plans on an annual basis.

Schneider helps customers assess and mitigate risk through:

- Baseline analysis of potential problems and supply chain solutions to improve productivity, network velocity and savings
- TMS and managed transportation services
- Establishing improved business processes
- Developing more resilient transportation routing guides

Trust your supply chain to a leader with a proven track record

If potential risks are keeping you up at night, contact the experts at Schneider. We have your back.

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