

## SAFETY + SECURITY

## Avoiding Supply Chain Breakdowns

The February 2018 breakdown of Kentucky Fried Chicken's supply chain in the United Kingdom provides a cautionary tale about hidden vulnerabilities in supply chains that all organizations should note. We turned to **RANE expert Tony Pelli of [BSI Supply Chain Services and Solutions](#)** to get his insights.

The key breakdown in the KFC supply chain centered around the food chain's recent switch from a specialty food distributor to a mega-freight forwarder, DHL, which, like many third-party logistics (3PL) companies, owns very few physical assets. These 3PL companies rely on a complex patchwork of individual trucking companies and other carriers to deliver their service. **Pelli recommends specific measures for creating visibility in the vendor supply chain when it is dependent on 3PL providers.**

- Companies should work with their 3PL partners to keep track of which carriers will be used for their shipments and ensure that their quality and security requirements are cascaded down to subcontractors in contractual language with the 3PL.
- Companies should clearly define key performance indicators with the 3PL partner and minimum standards for carriers that they use.
- Logistics buyers should conduct in-person checks of at least a slice of the 3PL partner's subcontractors to directly check out their quality, business continuity, and security practices.

**Pelli also recommends that companies identify where their supply chains run through regions that are vulnerable to disruptive local events and build in redundancy there to circumvent disruption or supply chain bottlenecks.** Localized low-impact, high-likelihood events pose risks to supply chains around the world without making international news and **Pelli warns that they can create "cascading risk" in which disruptions in one part of the supply chain create additional problems downstream.**

- Companies should speak with vendors

about how local events affect them and what contingency plans they have in place, as well as engage with external geopolitical risk intelligence sources who can offer unbiased analysis and context.

- Communication and cooperation between the teams examining the supply chain — business continuity, procurement, logistics, and so on — is essential to reduce silos and mitigate overall risk.

**While many organizations seek to simplify and streamline their supply chains to maximize efficiency and profitability, Pelli warns that reducing redundancy can also introduce risk, fragility, and an increased potential for disruption.**

- Complex supply chains can hide diamond-shaped chains, in which most or all vendors source a component from a small group of suppliers. For example, dye pigments used in many manufacturing industries are only made by a few factories in one region of Japan. A natural disaster in that region that halted production would disrupt all industries that use that pigment.
- Having one company coordinate all activity can lead to an onion-like structure of contracting and sub-contracting that reduces visibility into who is actually carrying a company's cargo at any point in time, increasing the difficulty of ensuring quality and security through the distribution chain.
- In some cases, it may be more sustainable in the long term to work with a roster of several approved logistics companies, granting delivery lanes to each one depending on where their networks are the most dense and robust. Companies can then compare performance across lanes and re-allocate them as the better-performing providers rise to the top.
- Working with multiple logistics providers serves as an insurance policy. In case there is a business continuity issue with one of them, one (or several) of the others may be able to fill in.