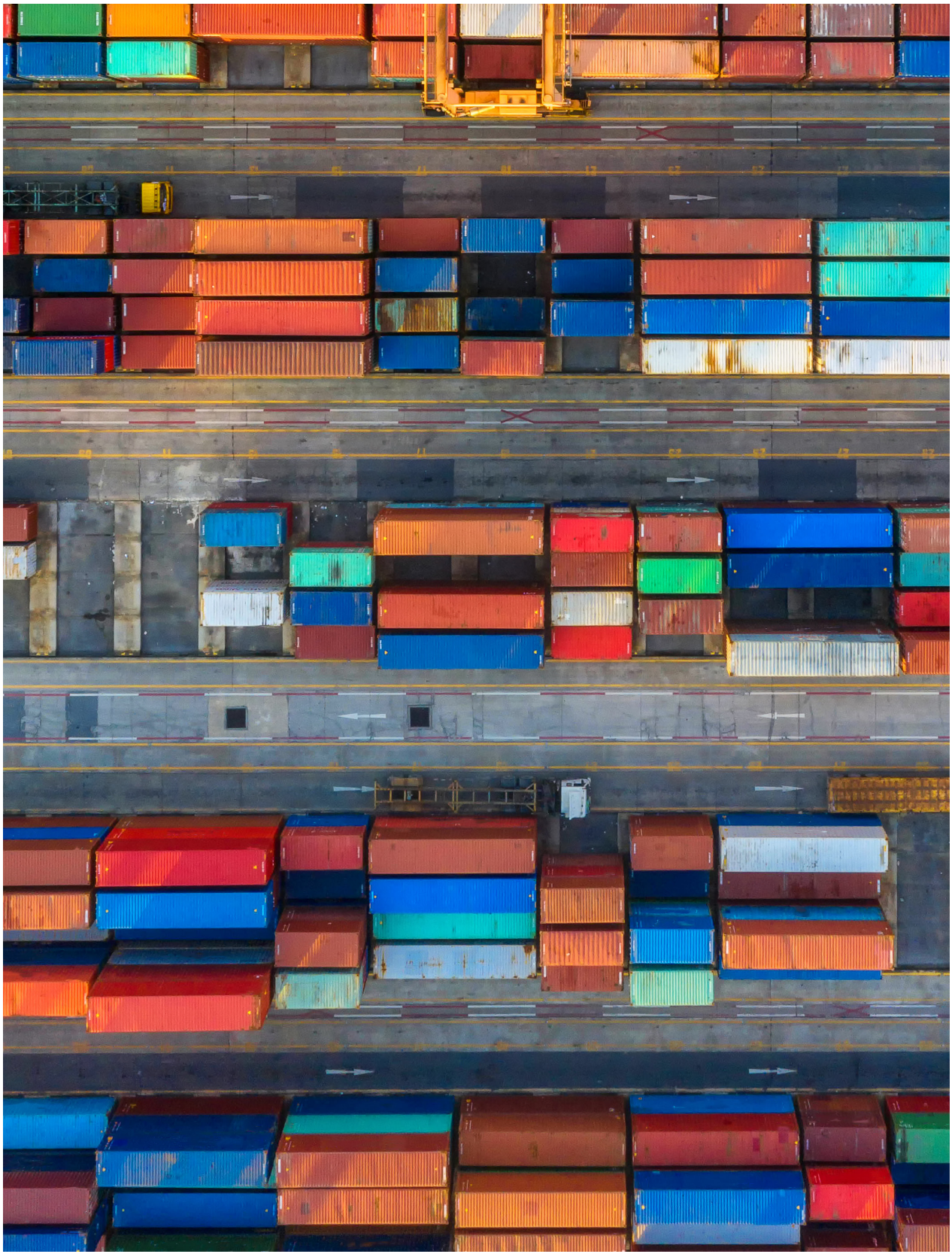
The Process for Managing Supply Chain Risk



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Risk in the international supply chain is everywhere. From exchange rate fluctuations, to political unrest and labor disruptions, to natural hazards. To succeed in the global marketplace, companies must constantly monitor risk factors that could negatively impact financial position. One of these risks is the loss or damage of cargo as it moves throughout the supply chain. Whether it is raw materials headed to your factory, or finished goods going to your distribution center or customer, the risk of loss or damage is always present.

By following the traditional process of managing risk, as outlined below, your organization can take a holistic approach to examining the financial exposure that cargo loss or damage presents. Your organization is then in the position to evaluate the risk and take action in accordance with organizational risk tolerance levels.

Process for Managing Risk



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Identify Risks

The first step is to understand where your freight is moving throughout the supply chain. Some questions to consider when mapping your supply chain are:

- Where does the cargo ship to and from?
- Where are the factories located?
- What are the organization's frequently used lanes or high volume customers?
- Where are the most important products that, if lost, will have the biggest impact on the organization's financial position?
- What is the maximum shipped value on one vessel or truck?

This step is designed to identify at what points an organization is most at risk for the goods in the supply chain. This can be done by understanding the contract purchase and sales terms typically expressed using Incoterms®. The Incoterms you agree upon with your vendors or customers will define when the risk transfers to or from your company. Being at risk means you are financially exposed to lost or damaged cargo. Once your risk exposure is identified, you can then begin to look at other critical factors such as the value of the goods, the shipping lane, the mode of transit, and the packaging. You will then need to assess potential hazards based on the risk exposure analysis. These hazards could include: hurricane, flood, earthquake, theft, hi-jacking, rough handling, civil unrest, and terrorism, to name a few. While this is not an exhaustive list, this exercise should be tailored based on your shipping lanes and commodities.

Analyze Risks

Risk analysis involves looking at your supply chain, determining the probability that you will sustain losses, and how severe those losses could be. The global movement of cargo renders this exercise difficult as no one can predict acts of nature or civil unrest with complete certainty. Your logistics provider will be able to provide some quantitative data but there are a number of unique variables such as commodity, packaging, mode, and carrier that can diminish the reliability of that data.

Implement Risk Mitigation Controls

While it is impossible to eliminate the risk of loss in any supply chain, there are plenty of risk mitigation techniques to evaluate for your organization's needs. Some can be as simple as diligent carrier selection or over-packing, to utilizing IoT tracking devices or escorts. The decision will need to be made as to whether one feels the implemented mitigation techniques are sufficient enough to reduce the risk of loss to an acceptable level. At this point, your organization will need to determine a risk approach:

- Avoid the risk: Stop shipping on that lane or modify your Incoterms
- Modify the likelihood and/or impact of the risk: Investigate additional loss control measures
- Transfer the risk: Purchase insurance
- Retain the risk: Simply take your chances of a loss and absorb the financial consequences

Due to the uncertain nature of supply chains, nearly every company purchases cargo insurance. This allows a company to transfer the financial risk of loss to the insurance company for a premium. When evaluating risk management techniques one might decide to use a combination of multiple techniques. For example, the decision might be made to purchase insurance on all shipments and utilize covert GPS tracking on all shipments of "high-value." This approach can have multiple benefits as it can provide real time visibility to your high value shipment, increase the chances of recovery in the event of a theft, and if properly presented to your insurance company, reduce your insurance premiums.

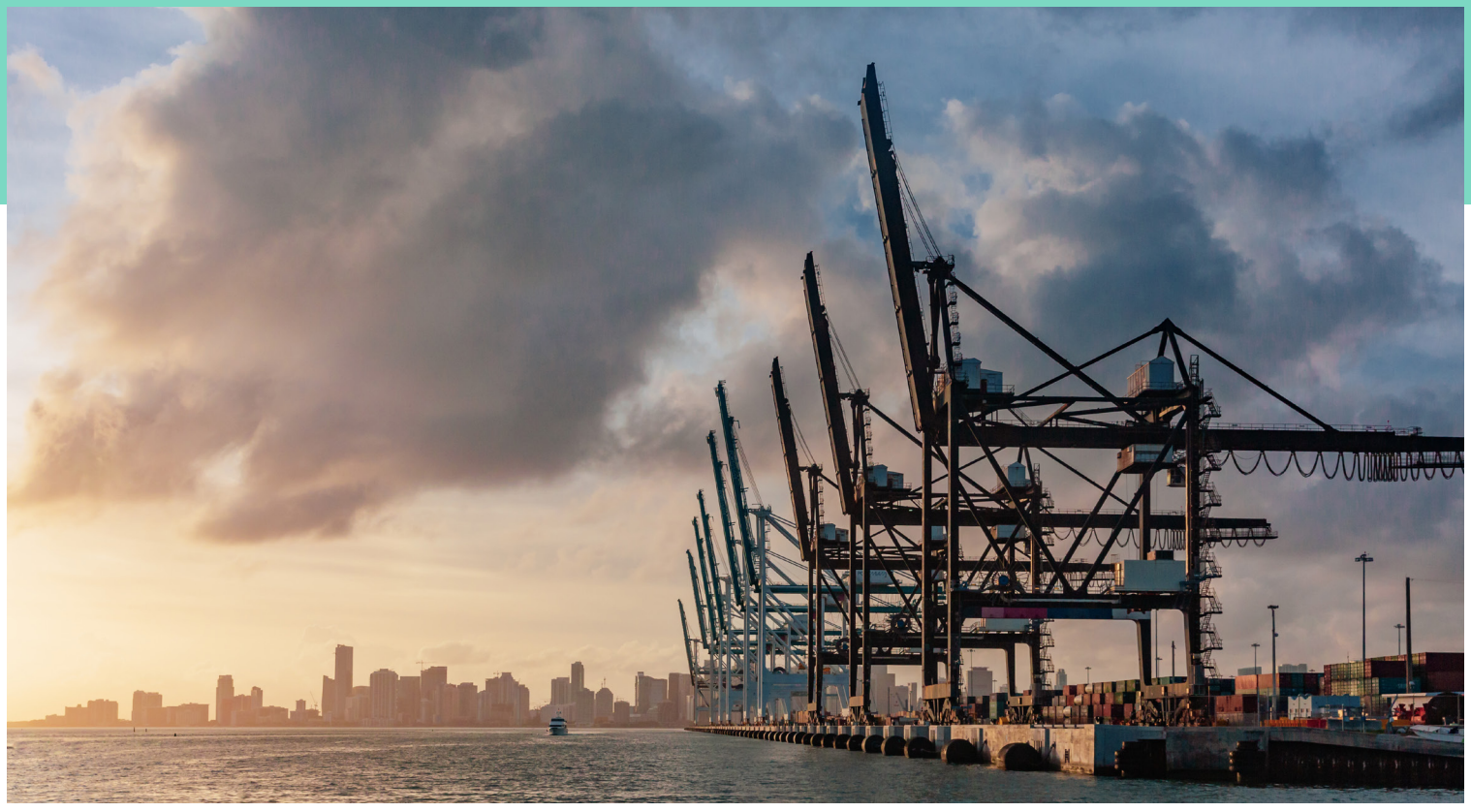
Monitor and Review Risk Controls

Continual monitoring of your loss history is critical to ensuring your losses are within your tolerance level. A high number of losses may result in increases to your insurance premiums, dissatisfied customers, and possible line-down situations. Cargo insurance is an effective way to protect yourself from unpredictable and unexpected losses, while additional risk mitigation techniques minimize the frequency and severity of claims. A thorough analysis of your cargo claim history for trends and root cause is also an effective way to refine your supply chain risk management plan.

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ECIB provides innovative, logistics-focused risk management solutions through a data-driven approach to insurance and claims, in-house expertise, and superior service that enables our clients to better manage the risks in their supply chain.

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