

October 2021

# Supply Chain Risk Management

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For Small Businesses

Prepared by: Chappell Business Strategies  
for Blue Ridge Crossroads SBDC and  
Twin County Chamber of Commerce



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## The Disruption of Business Lifelines

Supply Chain Disruptions have always been a fact of business. However, the level of disruption spurred by the global pandemic has reached epoch proportions and has hamstrung businesses of all sizes. Even major corporations have been caught off guard. A recent example is the forced shutdown of vehicle production due to a computer chip shortage.

In instances where supply is present but severely limited impacts smaller companies disproportionately as deeper pockets lay claim to and scoop up the limited resources. For small- to mid-sized organizations who often have slimmer margins and less cushion to fall back on the results are often catastrophic or even fatal.

## Supply Strategies

Organizations suffering severe revenue losses due to a disrupted supply chain often (and understandably) go into emergency mode - perhaps bordering on full panic. Having a contingency strategy in place well ahead of any disruption is, of course, ideal. This paper looks at risk management strategies for small- to medium-sized businesses, along with measures to take when the inevitable sourcing issues do strike.

## Strategic Planning

*Disruptions are inevitable and increasing. Plan now.*

- 1** The greatest asset of any business is its workforce. Work slow-downs and stoppages put this asset at risk and the cost of replacing them is an expense many companies cannot absorb at this critical juncture.
  - Protect your people with contingency plans for alternate work, providing cross-training and/or uptraining ahead of time.
  - Be transparent with your workforce when there is a supply disruption and tap into their knowledge for strategies to maximize their time and skills. Don't underestimate the insight your people can provide, nor their ability and willingness to adapt to changes for the overall health of the organization.
  
- 2** Put measures in place to have clear visibility into your supply inventory levels and demand trends.
  - Inventory levels of even the smallest parts is critical. (Think of the auto industry's disruption due to a computer chip shortage.)
  - If keeping a close watch on inventory is too overwhelming assign the responsibility to others. Diligence in this matter cannot be overstated.
  - Couple this data with reliable insights into consumer buying trends for short- and long-term strategies. Know what your customers are going to want in the next two months – and the next 18 to 24 months. Buying materials ahead of the actual need when possible has saved many companies. (Toyota was able to keep production going because they foresaw the potential chip shortage and stockpiled ahead of time.)

## Strategic Planning

- 3 Customer Segmentation is also vital for contingency planning - who are your most valuable/profitable customers?
- Plans to prioritize and protect their consumption may make the difference in times of survival mode.
  - Modifying and/ or limiting your product offering to accommodate your best clientele while protecting your limited supplies may make sense.

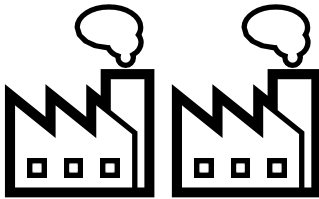
- 4 Evaluate your supply sources in light of a number of potential scenarios.
- Understanding where your suppliers are and what possible threats they may face can help you anticipate possible interruptions:
    - Are they in an area prone to natural disasters? Civil Unrest? Etc.
    - Do they shut down during the New Year? (or Chinese New Year)
  - Have a clear picture of their production and output capabilities and understand where you sit in their prioritization.
  - Look also at *their* supply sources and evaluate *them*; *go three or four tiers deep if possible*.
  - If your primary suppliers will not provide you with information on who *their* suppliers are, it will be worth your time to research who other suppliers are. Speak to counterparts in the industry for insights.
  - Have multiple suppliers in different areas of the globe, along with alternate delivery and logistic options. Locating available supplies is only as good as the ability to have them delivered.

# Disruption Preparedness

*Successful Contingency Planning requires a solid plan*

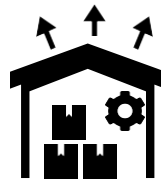
Create transparency into Tier 1 thru 4 Suppliers

Assess risks; find alternate sources (refurbished?)



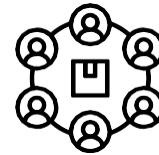
Analyze delivery and logistics

Arrange alternate delivery modes



Ensure reliable projections for customer demand

Prioritize production based on solid demand projections



Invest in inventory management tools for early risk detection  
Do a cost-benefit analysis for each contingency to prioritize  
Have teams in place for planning and quick response



Knowledge is power - understand your customers and their buying behaviors and trends in order to anticipate and plan for future supply needs.

A recent McKinsey Report\* advises:

*During the Sales & Operations planning process use industry experience and analytical tools to find reliable demand signals - short and medium term. Be realistic and reflect uncertainties in the forecast.*

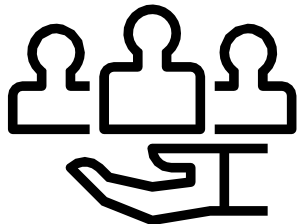


Minimizing the risk of supply disruptions requires diligence. Have a schedule in place for regular assessments of your suppliers - the cadence can be prioritized by categorizing them as:  
1) Mission Critical 2) Important 3) Non-critical

## Disruption Response

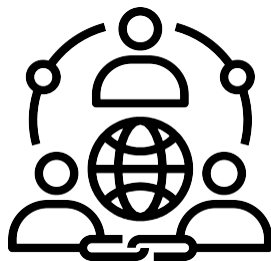
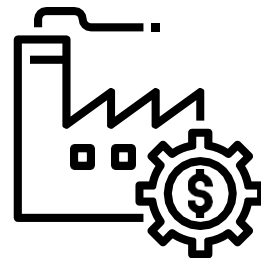
*In spite of your best efforts at preparedness, unexpected supply disruption is inevitable. Your response is critical.*

First and foremost, it is critical that panic does not impair sound business judgement.



Open, honest communication with employees *and* customers is key to avoiding long-term negative repercussions.

Streamline production to cater to the most valuable customer. Implement cost-cutting measures in operations, protecting jobs as much as possible.



Create a co-op model with like businesses for greater buying power when supplies exist but are limited.

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## Summary

Supply chain risk management is not an exact science and there is no magic formula for anticipating, preparing for, or mitigating the impact of unexpected or unavoidable supply chain disruption.

Strategic thinking and common sense applied in practical ways to basic business principles will better equip your business to survive these tumultuous events.

As experts predict no real relief on the horizon for the disruptions we have experienced, diligence will be required to stay informed and prepared. Inevitable changes to your plans and strategies will also be required as world conditions are fluid.

Transparency with both your workforce and your customer base will be appreciated and respected. It will help minimize confusion and frustration all around. Establish a cadence for information sharing with both of these groups, and always provide a venue for gathering feedback.

If the global pandemic has taught us anything it is the need to be resilient and prepared to pivot quickly. Your ability to do so will keep your business productive and profitable, even in challenging times.

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\* Source: McKinsey & Company,  
Supply-chain recovery in coronavirus times  
– plan for now and the future. (March 2020)



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