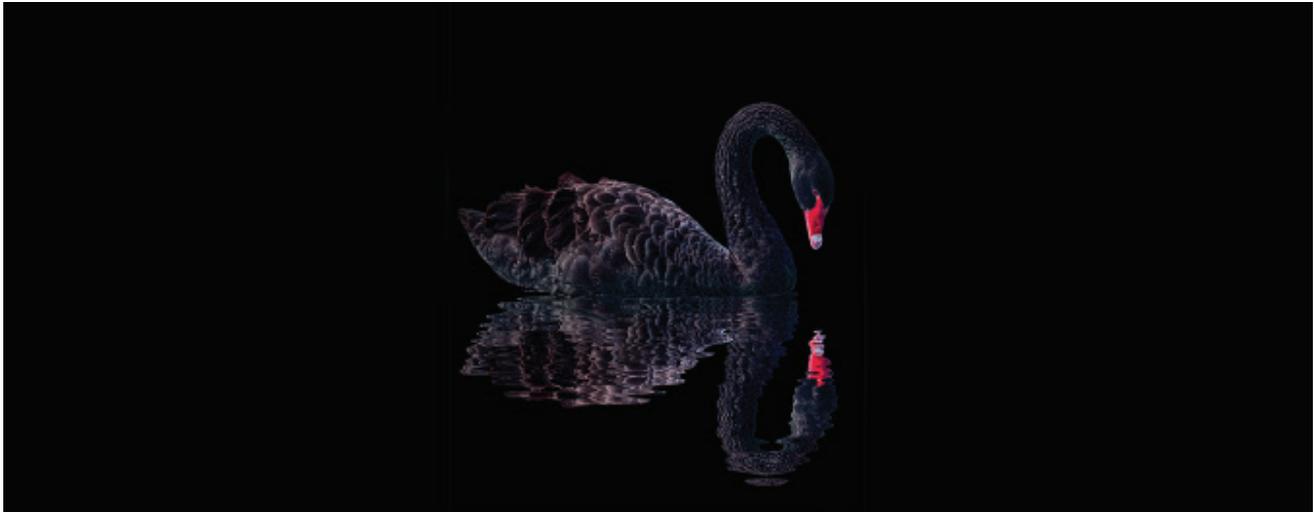




supply chain  
world



## The next Black Swan event is already out there say John Ferguson and Ken Koenemann

⌚ 6 min read

### Is your supply chain ready?

Like one-hundred-year floods, Black Swan events, a term used to describe unforeseen occurrences with a severe impact, have become increasingly common with consequences for global supply chains. Covid and Russia's invasion of Ukraine are two such events that derailed the global movement of goods and parts for finished products, affecting a wide range of manufacturers and distributors. Now, the threat of a US freight railway worker strike and heated tensions over Taiwan are two more 'outlier' events that should remind business leaders to regularly anticipate, and plan for any unforeseen disruptions to the global supply chain.

## Key to resiliency is de-risking and diversifying

A conflict with the People's Republic of China over Taiwan or a strike by US freight railroad workers each brings with it its own permutations of challenges, but a key to resiliency in a supply chain is de-risking and diversifying by building a broad pool of suppliers across geographic regions. Managers should now view the supply chain as one with many hidden fault lines where there never is zero risk of disruption. For many manufacturers, changes in the geopolitical landscape and other factors may spur a push to find suppliers closer to where a final product is produced – a refinery or assembly plant. Also, manufacturers may forgo low-cost suppliers for sources that safely assure uninterrupted delivery of essential parts and raw materials.

A conflict over Taiwan is sure to impact global trade, disrupting supply chains. Published reports offer varying theories on how China may try to seize the island nation, with some analysts suggesting that Taiwan's ports could be blockaded and undersea communications links could be severed. Any conflict would impact the shipping of goods from Taiwan and nearby markets via sea or air. Goods and raw materials sourced from the entire region are diverse, but Taiwan is home to more than 90 percent of the manufacturing capacity for the world's most advanced semiconductors, a critical building block of modern industrial economies.

Meanwhile, the implications of a disruption to US rail traffic are evident when considering weekly data measuring goods delivered by rail: each week, nearly half a million carloads and intermodal units move motor vehicles and parts, nonmetallic minerals, farm products, grains, chemicals and metals.

## **Conduct top-down review of all aspects of production to map out vulnerability**

Managing geopolitical risk now means that companies should not rely on a particular supplier or a region and watch for political flashpoints that could disrupt supplies. If you rely on one primary supplier for 80 percent of your goods and 20 percent from a secondary source, you may want to change that mix. While maintaining strategic alliances with suppliers is important, if you want to de-risk and build a resilient supply chain going all-in with one supplier may no longer be feasible. For some businesses, adopting this strategy may be easier said than done. Within healthcare, for example, you can readily shift sources of masks or syringes, but the pivot to a new supplier of Magnetic Resonance Imaging machines may be tougher because of their size and weight. Sometimes, weaning yourself off a region and its suppliers – for example, Taiwan’s semiconductors – cannot be accomplished overnight because shifting production is complex and involves a long-term effort.

Faced with a rail strike or tensions in Asia, companies looking to ensure resiliency in supply chains should take a strategic look at what goes into the production of finished goods and what may impact their ability to fill customer orders. Such a top-down review involves examining all aspects of a manufacturing process to see what raw materials or parts are essential ingredients that could be cut off by a disruption in rail, air, or trucking tied to geopolitical or labor issues. Ideally, this cataloging of key ingredients is carried out regularly, and managers routinely review component families and inventory classifications to map out vulnerabilities in a supply chain, assigning a risk score to each part. Can a mold for a product be moved to another location, and how quickly will machinery need to be retooled to fulfill orders at another location?

## Increasing your safety stock to weather unforeseen challenges

In some cases, managers will want to reconsider how they view 'safety stock' and increase inventories of essential parts or ingredients for their manufacturing process to mitigate risk. For example, companies dependent on freight rail for plastic pellets or resin – used in seat belts and cell phones – will want to keep an extra railcar or two on site to ensure a strike doesn't slow plant production.

Companies may have become more complacent after the end of the Cold War when geopolitical tensions appeared to abate, however, since the pandemic, conversations about supply chain risk are routine. Many business leaders are feeling exhausted like smoke jumpers that have been putting out fires since 2020. Each new unforeseen event brings its own set of challenges.

As these high-impact events become more prevalent and predicting when or where they'll occur becomes more challenging, it's imperative that business leaders find a way to manage them by assessing risks to their daily processes and diversifying to build more resilient supply chains. Managers should get into the practice of reviewing their business's vulnerabilities ahead of any actual crisis. That means adopting a business culture that looks to identify risks to their supply chain before unanticipated calamities and introducing a Chief Resiliency Officer or CRO, whose sole role is to oversee a regular strategic review of supply chains and their durability.

*For a list of the sources used in this article, please contact the editor*



**John Ferguson**  
Chief Executive Officer



**Ken Koenemann**  
Vice President, Supply  
Chain & Technology

## TBM Consulting

[www.tbmcg.com](http://www.tbmcg.com)

**John Ferguson** is Chief Executive Officer, and **Ken Koenemann** is Vice President, Supply Chain & Technology, at **TBM Consulting**. TBM Consulting is an operations and supply chain consulting firm that works with manufacturers, distributors, and private equity firms to accelerate productivity, improve profitability, and grow enterprise value. The firm's supply chain capabilities include inventory optimization, supplier management, talent development, integrated business planning and S&OP, and network/warehouse optimization.