



# Analysis

## Supply Chain Disruptions – Getting Ahead of the Problems

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### Biography

*Nick Hood is the Senior Business Adviser at the Opus Business Advisory Group (<https://www.opusllp.com>), the largest independent advisory, restructuring and insolvency firm in the UK.*

*Nick was a licensed Insolvency Practitioner, working in the business rescue market for 25 years. He is a committed internationalist, having created the largest global network of independent business rescue firms and having also worked overseas in Canada, Milan and Bahrain.*

*In his earlier career and after qualifying as a Chartered Accountant in 1970, Nick held senior executive positions in major companies in the construction, engineering and media sectors, as well as working for a boutique investment bank.*

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### Abstract

*A malfunctioning supply chain will play havoc with the profitability and viability of any business. It has the potential to alienate customers, it will certainly damage the smooth running of its operations and cause serious financial problems. In this article the author looks at how management can anticipate looming supply chain problems and what it can do to limit the downside any such difficulties.*

### Introduction

Healthy, fully functional supply chains are crucial for the success of many businesses, but the threats to their smooth working just keep coming. The most recent major disruption has come from events in the Middle East, which follows hard on the heels of the impacts from the conflict in Ukraine and before that, the pandemic. It seems that geopolitics are an integral factor in procurement.

A stuttering, misbehaving supply chain risks a business failing to meet demand and upsetting or even losing customers. Putting things right after the event can be expensive, time consuming and deeply distracting for management. The trick is to



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spot the trouble coming sufficiently early either to avoid these problems or mitigate their severity. Achieving that means being vigilant in constantly looking for and reading the warning signs of trouble ahead. Only this way can a business build resilience and sustainability into its operations.



### **Warning signs**

What are the warning signs? Every supply chain has its unique features, but there are common themes when it comes to emerging problems.

- **Are you on top of key suppliers' current financial and commercial position?**  
Efficient procurement departments will always carry out the necessary due diligence on new suppliers before committing to a relationship with them. In addition to analyzing the financials, this means looking out for evidence of declining business performance, major restructurings, management structures changes or inconsistencies in the company's filing history. If their filing history is not up-to-date, further enquiries need to be made to establish why the accounts and other statutory data have not been filed on time. Late filing is a huge red flag.

Unfortunately, too often the task of updating this vital background information is overwhelmed by other priorities and pressures. It's vital to keep up to date on a routine basis, especially given the long lag for UK suppliers between the end of a company's financial year and the Companies House filing deadline for their accounts.

- **Has the supplier asked for quicker payment?**  
When a supplier finds themselves dealing with severe financial pressure and is struggling to manage its cash resources, one of their first and most obvious strategies is to try to drag forward debtor receipts by accelerating payment terms or even requesting cash upfront for deliveries.

This will have a knock-on effect on the buyers' own cash flow but sometimes the importance of preserving supply arrangements makes agreeing to tighter payment terms tempting. Before doing so, it is worth exploring with the supplier whether there are other ways to support them, such as committing to longer-term contracts or increasing future purchase commitments.



- **Are transport and logistics problematic?**  
Getting goods smoothly round the world is the essence of a good supply chain. Anything more than the occasional delayed shipment or when freight rates surge as they have done in recent weeks could be indications of problems with the logistics side of procurement. There could be all sorts of factors behind such issues. It might be a lack of carrier capacity, port congestion or geopolitical events affecting trade routes, such as the disruptions in the Red Sea at the moment. It pays to keep on top of these trends so that potential disruptions can be anticipated and alternative freight methods can be explored in readiness.
- **Market intelligence**  
Economic indicators on aspects such as commodity price movements or foreign exchange fluctuations are predictors of potential supply chain disruptions. A major hike in the cost of a key component could be the harbinger of scarcity, leading to the risk of interruption to the supplier's production schedule and a future inventory shortage. Maintaining sufficient flexibility in procurement strategies depends on constantly keeping up to date with the relevant market conditions.
- **Communication, communication, communication**  
Effective communication is the cornerstone of any successful supply chain. If you are experiencing a breakdown in communication with your trading partners, whether it's a failure to respond to routine requests for updates or



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being given inconsistent information, it's another red flag. These issues can be symptomatic of deeper problems within the supply chain, which may need immediate attention to prevent a crisis.



- **Could your own forecasting be to blame?**  
It's important for buyers to understand that if their demand forecasting is wrong too frequently or there is a lack of contingency planning, this will make the supply chain unnecessarily vulnerable. Reliable forecasting models are essential for anticipating market changes and flexing supply chain activities. Equally, having robust contingency plans in place can mitigate the impact of unforeseen events and help to avert a crisis.
- **Self-confessed supplier issues**  
Procurement departments spend so much time and effort in trying to avoid supply chain problems, that it can be a shock when suppliers own up to their difficulties. It's one thing spotting that a supplier is starting to miss deadlines; it's quite another when that supplier talks about their own difficulties in sourcing materials or other production issues. That really should be a wakeup call. These are early signs of upstream supply chain trouble. If a supplier is regularly expressing concerns about their own inventory levels or their ability to meet scheduled order quantities, this is the time to consider finding alternative sources or to think about tactics to curb customer demand for products that may become unavailable.



### Supply chain disruption-proofing your business

Maintaining a robust and sustainable supply chain isn't just about reacting constructively and proactively to signs of trouble at suppliers, it's also essential if the procurement and other relevant departments at the buyer are to avoid causing the problems themselves.

- **Reviewing the supply chain**  
Beyond looking regularly at individual suppliers, regular and comprehensive reviews of the efficacy of the supply chain as a whole are essential, focused on identifying and analyzing the potential sources of disruption that could affect it, as well as how likely and severe they could be. A range of tools are available, such as creating a risk matrix, preparing a SWOT analysis or scenario planning to assess the effect that a variety of events could have on suppliers, customers, inventory and operations. It's also worth modelling the interdependencies and ripple effects of disruptions across the supply chain network, especially how they could affect cash flow, profitability and competitiveness.
- **Contingency planning**  
There must be contingency plans identifying the actions and resources needed to deal with different types of disruptions. The plans must set out who will be responsible for actions and how the supply chain team and others involved in any crisis response will communicate and coordinate with internal and external stakeholders. There need to be clearly defined activation and



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deactivation triggers for the contingency plan, as well as the metrics and indicators for monitoring and evaluating performance while the plan is in operation, and the plan must also define what constitutes successful recovery.

- **Multi-sourcing**

Relying on a single or limited number of supply sources creates unnecessary vulnerability, except where it is unavoidable. It's better to diversify suppliers. The objective should be to establish multiple or alternative relationships with reliable suppliers. This may increase costs when the incentive of higher volumes is removed, but determined negotiation can mitigate the impact on margins and profitability.



- **Optimize your inventory**

Optimizing inventory levels and rationalizing locations can pay dividends, although this will involve a delicate balancing act between reduced holding costs and the risk of reducing customer service standards. Data and analytics software can be used to more accurately forecast customer demand and supply patterns, so that inventory levels can be adjusted, whether it is upwards or downwards.

At the very least, basic inventory management techniques should be deployed, such as safety stocks, re-order points or ABC analysis to prioritize inventory of the most profitable products. Another trade-off will be between a 'just-in-time' strategy to reduce inventory waste and obsolescence or 'just-in-case' to avoid losing sales and upsetting customers through stockouts. The location and distribution of inventory and how this affects your transportation, warehousing costs and lead times, are other considerations.

- **It's time to embrace technology**

Technology and in particular, artificial intelligence (AI), is transforming every aspect of commercial activity and at breakneck speed. It offers the prospect of improving supply chain visibility, agility and efficiency. It can be used to collect, store, analyze and share real-time and accurate information across your supply chain network. Supply chain processes like procurement, order



fulfilment, invoicing and tracking can be enhanced, as can decision making and problem-solving capabilities.

- **Keeping current about your supply chain**

The supply chain landscape is constantly evolving, so your strategies must too. Conducting quarterly reviews will ensure that plans are up-to-date and aligned with the current environment. This should include revisiting supplier performance, risk assessments and the effectiveness of contingency plans. An ongoing review process is essential for maintaining a resilient supply chain.



**Calling in independent expertise in a worse case scenario**

If a critical supplier does enter a formal insolvency or moratorium process, you need to assess the impact, identify your options and act appropriately and quickly. These are complex situations where expert advice from experienced professionals is priceless. It can help to avoid the most obvious pitfalls and mitigate both the disruption and financial impact.