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PLANNING ISSUES

Following the Path of Downward Resiliency

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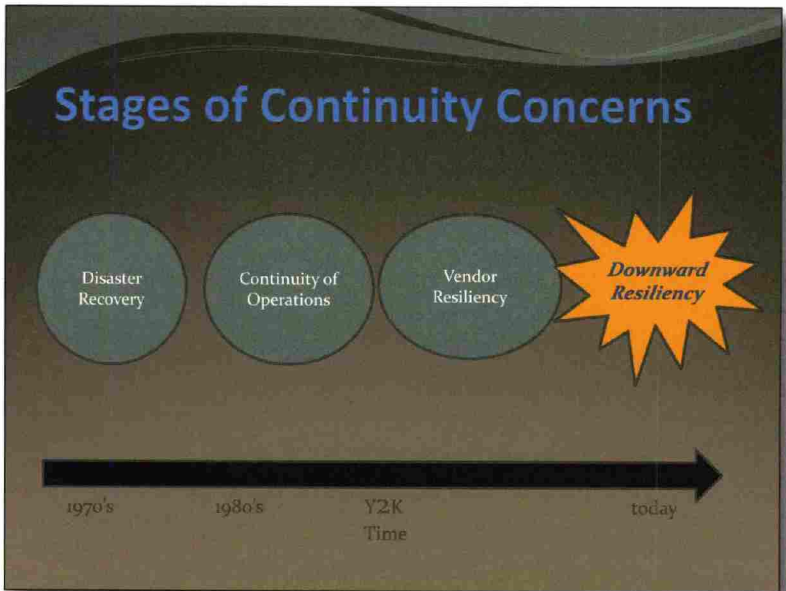

The business continuity timeline initially addressed technology (disaster recovery), then the realization that the operation itself was exposed, led to business continuity management or continuity of operations, which is a more generic term. The organizational entity considered itself sufficiently covered when we stumbled upon the realization the operation could be jeopardized if the supply chain was interrupted. Now that some may have addressed the supply side, I propose going further along the continuum to the organizational output or client side, downward resiliency if you will. What, if any, is the threat to organizational operation if there is some interruption on the product delivery side?

Most organizations have made the adjustment from disaster recovery to continuity of operations (COOP). Some have even ventured into the resiliency realm to review upstream vulnerabilities as far as obtaining their own supplies and vendors. To these organizations I say "bravo," and a great deal of credit goes to authors such as Yossi Sheffi whose book on resilience, "The Resilient Enterprise," presented the subject in much detail.

Now it is time to look at the delivery side for assessment of vulnerabilities and risk. I will present a few issues which I hope will engage the reader to think about how it applies to them and their own organization. This article will only present some generic questions that are industry independent, yet I am sure some will apply to anyone. With the challenging economy there are many more risks involved than appear on the surface.

A number of definitions exist for resiliency. For the sake of this discussion, I will refer to the following from Merriam Webster: "an ability to recover from or adjust easily to misfortune or change."

Resilience is not the ability to eliminate the risk, but simply to be able to lessen the effect. As they may not be able to be eliminated entirely, one can attempt to mitigate the risks, but they should be addressed in some shape or form.

To start off, think about the following question: "Is my customer list skewed to a single or a small few very large customers?"

This is the flip side of the single supplier coin. What if your largest client has a problem? Are you protected?

I started thinking about this a few months ago when the news about the auto industry was all over the media. As I was listening to the arguments for or against the industry bailout, I wondered how this would apply to COOP. What if I were to sit in front of the C-level managers at an organization manufacturing or providing auto parts? Would I be concerned? What would I need to concentrate on to ensure continued operation and hopefully associated profit?

Just as one wants to be shielded from the effects of a particular vendor, one must be shielded from a customer potentially being unavailable as well. After all, should something happen to one or more of these major clients can the enterprise continue? Is there something I can do today to lessen the impact if my major client succumbs to the down economy? Could I diversify? What must I do to extend the supply chain downward? Many industry and organization-specific questions can be raised here, but I will try to maintain the generic discussion.

Let's look at another aspect of downward resilience. You probably feel comfortable knowing your COOP scenario will protect you in the event of an interruption. You have addressed the technology, you worked hard to accurately indentify recovery time objective (RTO) and recovery point objectives (RPOs) and even the actual time to recover these elements. You may have even taken the additional step of engaging your suppliers and customers in your recovery exercises. The question I raise here is simply this:

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"If your largest customer needs to work from their recovery site for an extended period, can you deliver your product to them?"

What if they must move their operation to another geographical area are you prepared? Is there a risk they might drop you as a supplier and go elsewhere? If you are confident you are capable of supplying them regardless of their physical location, have you let them now? Do you think this forward thinking would give you an advantage over your competition? If you had a supplier that went the extra mile and informed you that deliveries would continue, albeit in a reduced capacity, would you look at them in a better light? Don't you think that would be something your clients would value? Wouldn't you? Remember the economic situation is not limited to you, everyone, whether they admit it to themselves or not, is affected by the economy in some way. Anything that will ease their mind and show them that someone appreciates their plight will probably go a long way in strengthening your relationship.

While I am on the subject of recovery mode, should you need to migrate to your recovery location, can you maintain the same commitments of product delivery? Are the roads and thoroughfares similar? Will you incur additional costs to deliver product to your major client(s)? Can you bear the additional cost alone, or will your customer understand and work with you? Do you have the equivalent of Service Level Agreements (SLAs) with clients, and will you live up to them? But that is a separate discussion; I just wanted to plant the seed here.

> "This is the flip side of the single supplier coin. What if your largest client has a problem? Are you protected?"

There is no question we are currently facing economic challenges. Organizations should have verified that the supply chain to them will continue, but what of your customers? I will use a few examples here, but it should not be taken as an editorial on these industries. These are simply used for effect.

Let's say you are an auto parts manufacturer (e.g. tires) that I mentioned earlier. Most likely your major client is one of the large automakers in Detroit. Do you know what the impact would be on you, should the slump continue? Goodyear recently revised their operational figures due to the reduction in vehicles purchased in the past two quarters. Additionally they mentioned that consumer purchases of replacement tires were down, as people did not replace their tires as often.

Here is another example: You are a manufacturer of plasterboard or windows for new homes. The housing market is in a slump, there is less building now and this trend will probably continue for the next six months. Now what? How much inventory, if any, can you store or maintain? How economically stable are your best customers? In these days of maintaining minimal inventory, will your product take longer to reach them, thus forcing them to go elsewhere? What if you are in the office supply business and your major clients are the large investment banks who are retrenching currently?

Let's look into some delivery issues. As organizations with continuity plans in place, your customer will most probably have a recovery site which will continue operations in a somewhat reduced capacity. There are probably plans in place to receive supplies, etc. to the recovery site.

Here is my question: Do you know what issues you may have to get product to the customer's recovery site? What if their recovery site is in a different geographical area? Will you have substantial increases in delivery charges? What if that site does not have a loading dock or receiving facility sufficient for your product? Are you capable of receiving a large quantity of product returned from the client suddenly? Does your product require refrigeration or other special handling?

In closing, I want to bring up a few additional issues or questions. What you should be doing is looking beyond supply resiliency and thinking about the questions your client/customers will ask themselves about you, to ensure their continuity, and then look at the effect this would have on you. Review your dependence upon limited or singular customers.

Ask yourself the difficult questions: How can I evaluate the impact of my customers? How can I determine alternatives? How can I get information regarding customer without alienating them? Does the client you depend upon most have a tested BC or DR plan? If you need to go to your recovery site, will you be able to schedule deliveries at the same level as normal? Will the cost of delivery be similar to current levels? Is your product sufficiently competitive with your market peers? Is there a risk of spoilage? What differentiates your product from your peers? Are you able to withstand an aggressive competitor? Are you sufficiently insulated from competition? Can you vary your product line? These are just a few of the issues to address; many more questions that may be particular to your industry may require investigation and assessment.

You should take a serious look at the organization's client or customer base. How dependent or resilient are you to interruptions of your major clients? What steps can you take now to protect yourself from significant impacts in the future? It is far better to ask yourselves these questions now than have to answer to your stakeholders later when it may be too late.

Harvey Betan is a Certified Business Continuity Planning consultant in New York City. He migrated to business continuity after restoring a large insurance company with a major office in the World Trade Center on Sept. 11, 2001. His goal is to provide leadership and cooperative team productivity to anticipate and overcome issues concerning continuity and recovery. He has guided government agencies and the private arena to prepare plans and exercises to determine readiness and impact of specific events. Betan has been a contributor to many periodicals and conducted seminars at DRJ conferences. He is also an adjunct professor at Manhattan College. He can be contacted at Harvey@hbetaninc.com.