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China: The Nightmare Supply Chain Scenario

Webinar Start Time: 1:30pm EDT

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Speakers



Kenneth W. Davey

Senior Vice President – Managing Director, Europe, Middle East and Africa/Asia Pacific Division
FM Insurance Company, Ltd



Dr. Vinod Singhal

Professor
College of Management
Georgia Institute of Technology

Moderator:



Dan Reynolds

Senior Editor
Risk & Insurance®

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Japan



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Thailand



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China: Pearl River Delta



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Points to Consider in Natural Catastrophe Zones

- Events are predictable
- Events are inevitable
- Losses are preventable
- Disruptions are manageable

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Study Methodology

- FM Global commissioned TNS, a global market research firm
- 100 financial executives surveyed
- Large North America-headquartered global corporations (US\$1 billion+ in sales)

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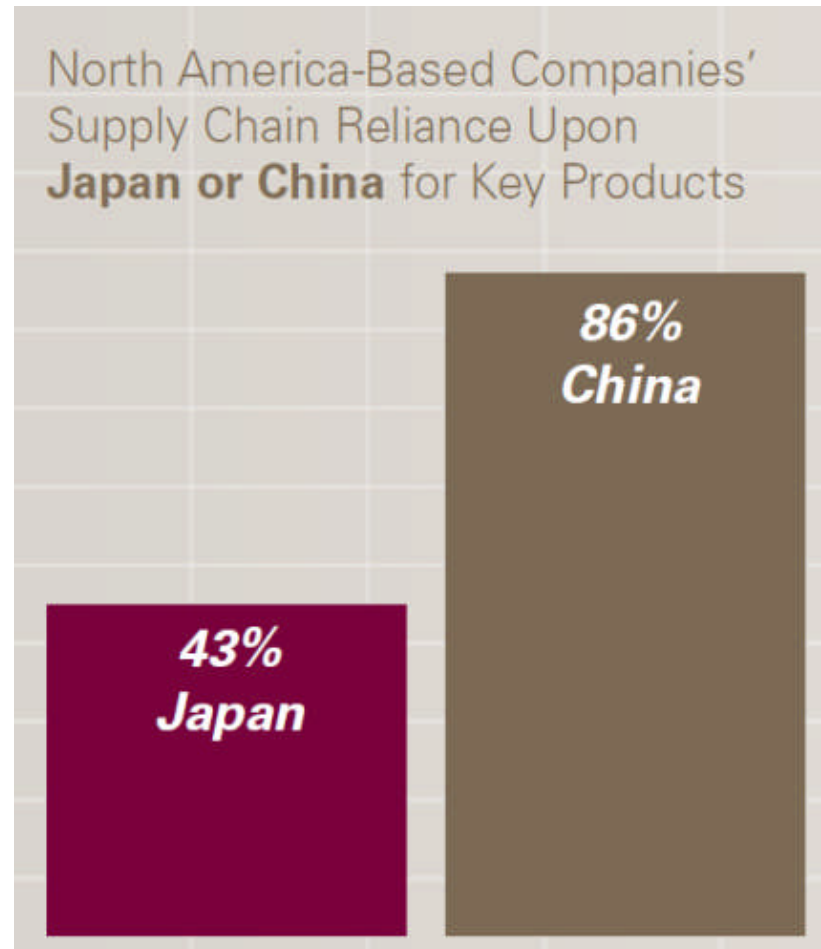
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Supply Chain Reliance



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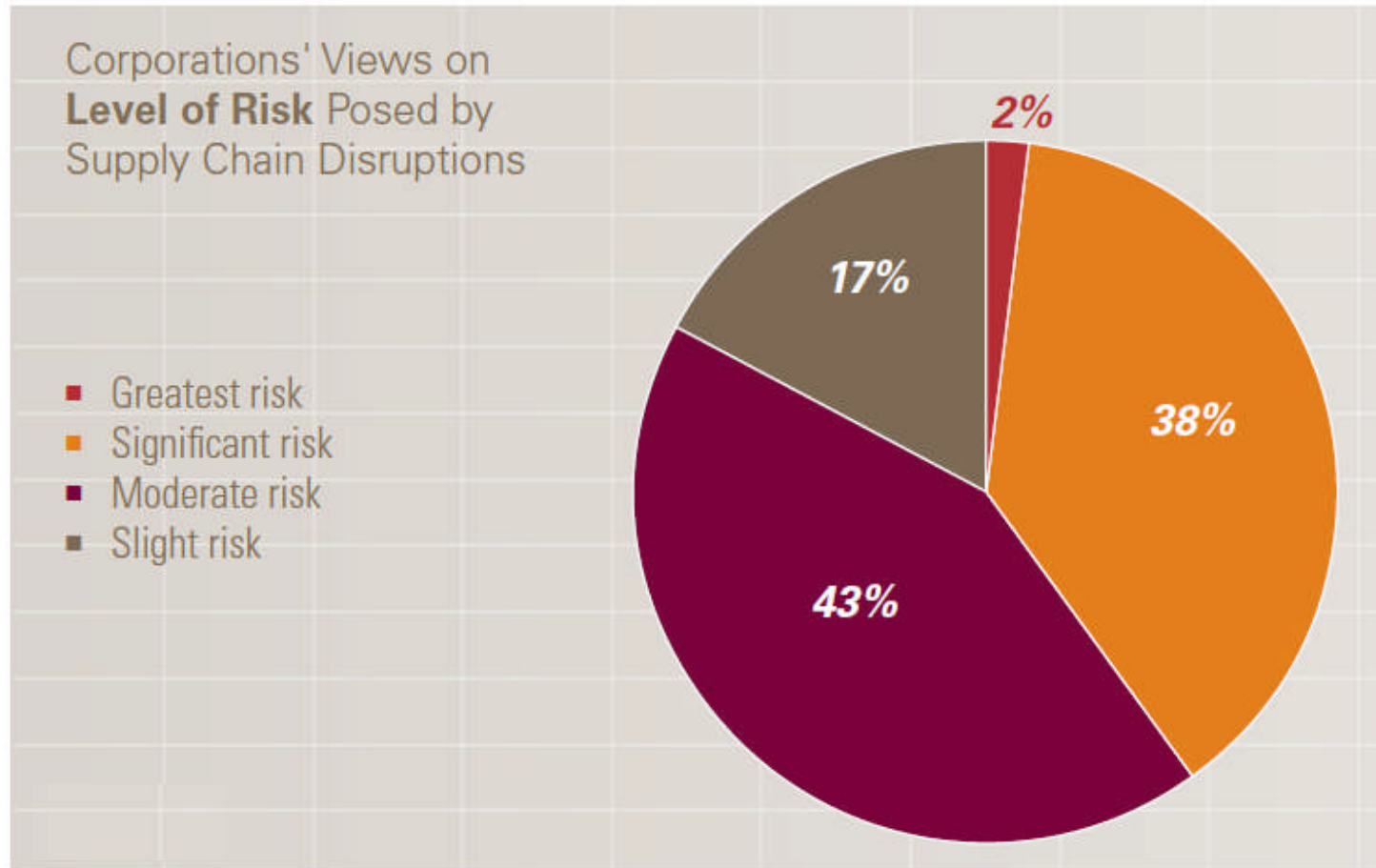
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Level of Risk



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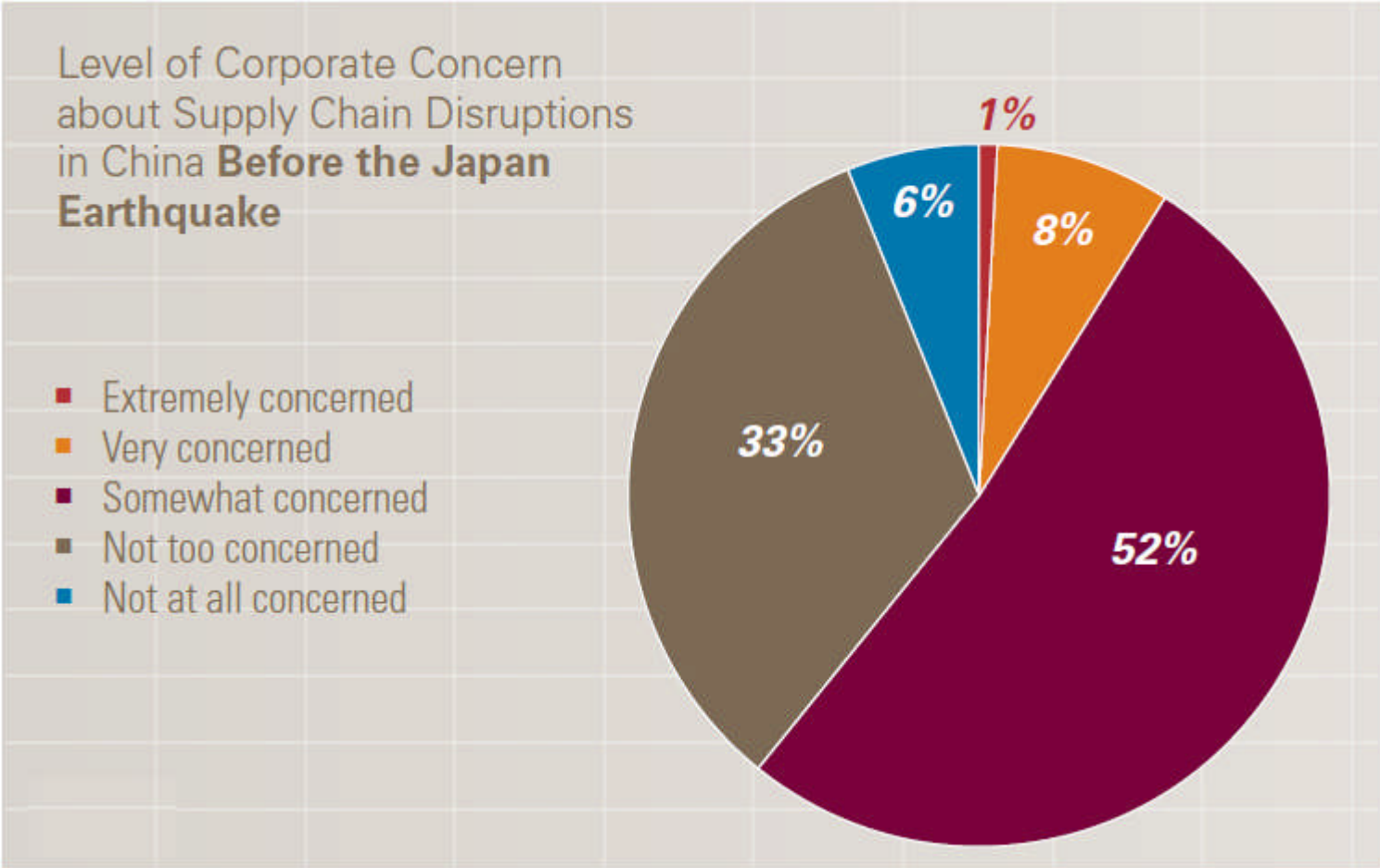
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Concern Before Japan Earthquake



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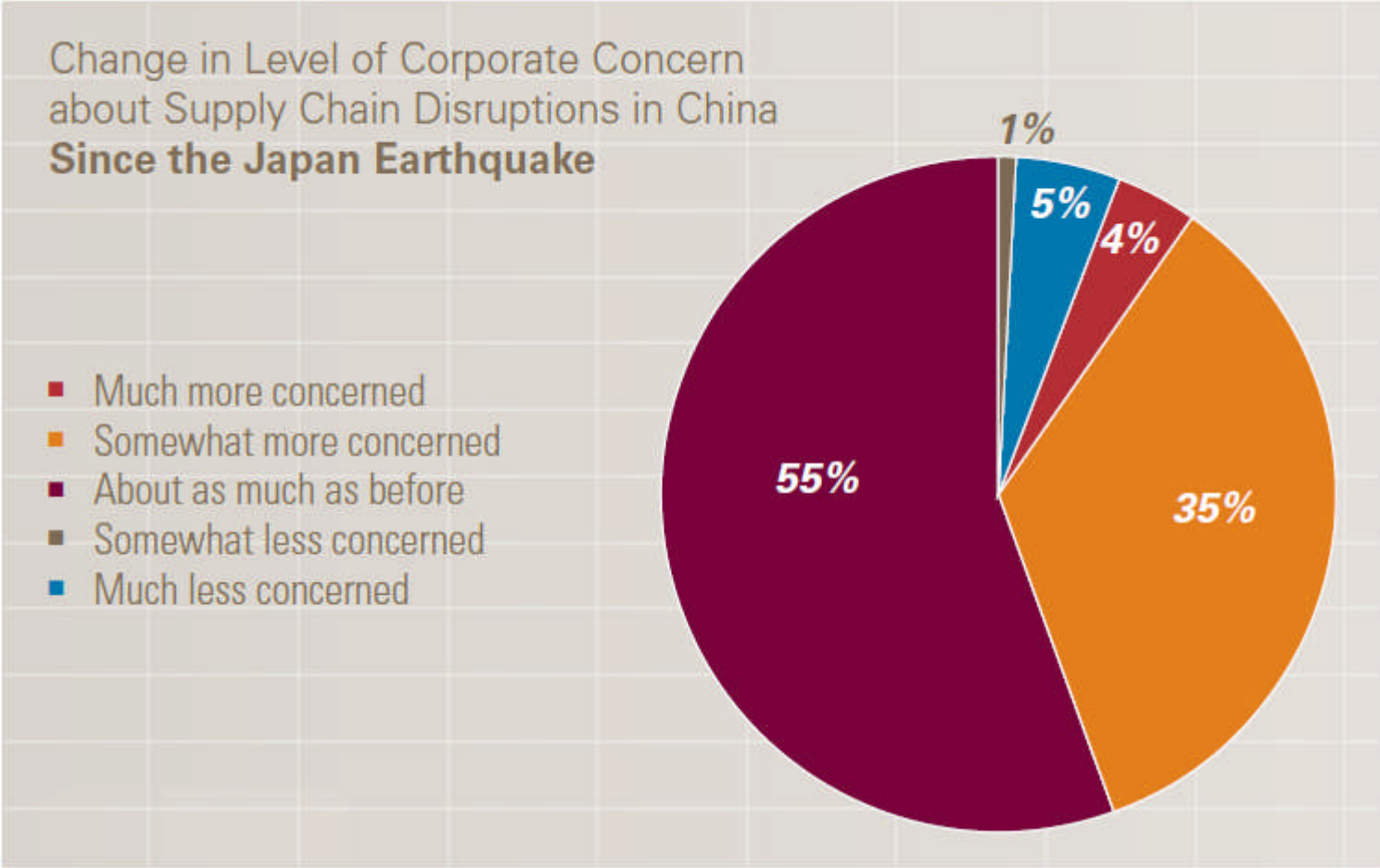
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Concern After Japan Earthquake



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Mitigation Strategies

Strategies Being Considered by Global Firms to Mitigate Supply Chain Natural Hazard Exposures in China



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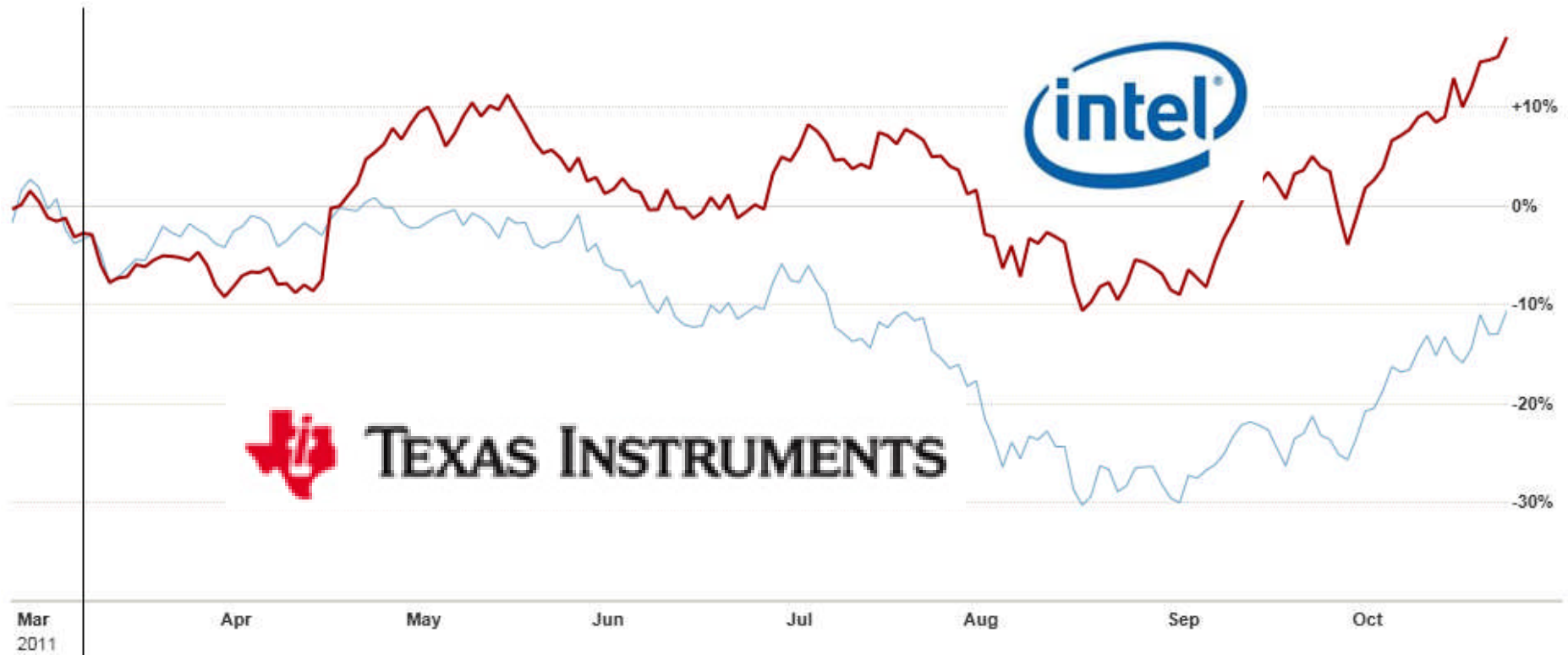
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Case Study



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Questions to consider

Do you understand your supply chain?



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Questions to consider

Have you analyzed your third party exposures?



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Questions to consider

Do you understand your risk appetite?



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Questions to consider

Have you developed effective business continuity plans?



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Key Takeaways

- Understand your supply chain
- Undertake independent due diligence
- Develop effective business continuity plans

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What managers say about supply chain risks

- 70% of executives indicate that supply chain risks has increased in the past three years (McKinsey 2011)
- Second most important issues for executives (IBM 2009)
- 80% are reactive and 20% are proactive (ChainLink Research 2011)

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Financial Consequences of Supply Chain Disruption

- Shareholder value
- Stock price volatility
- Profitability

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Consequences of Disruptions

- Lower revenues
- Higher costs
- Poor asset utilization
- Excess inventory, inventory write-offs, stockouts
- Higher cost of capital/borrowing
- Loss of reputation and credibility, negative publicity

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Sample

- 1000+ announcements of supply chain disruptions (production or shipment delays) from Wall Street Journal and Dow Jones News Service
- Announcements by publicly traded firms from 1990 to 2008
- Examples of types of announcements included in the sample
 - Boeing Dreamliner delays
 - Sony Playstation2 shortages
 - Disruption in BlackBerry service
 - Shutdown of Toyota's assembly plants due to recalls

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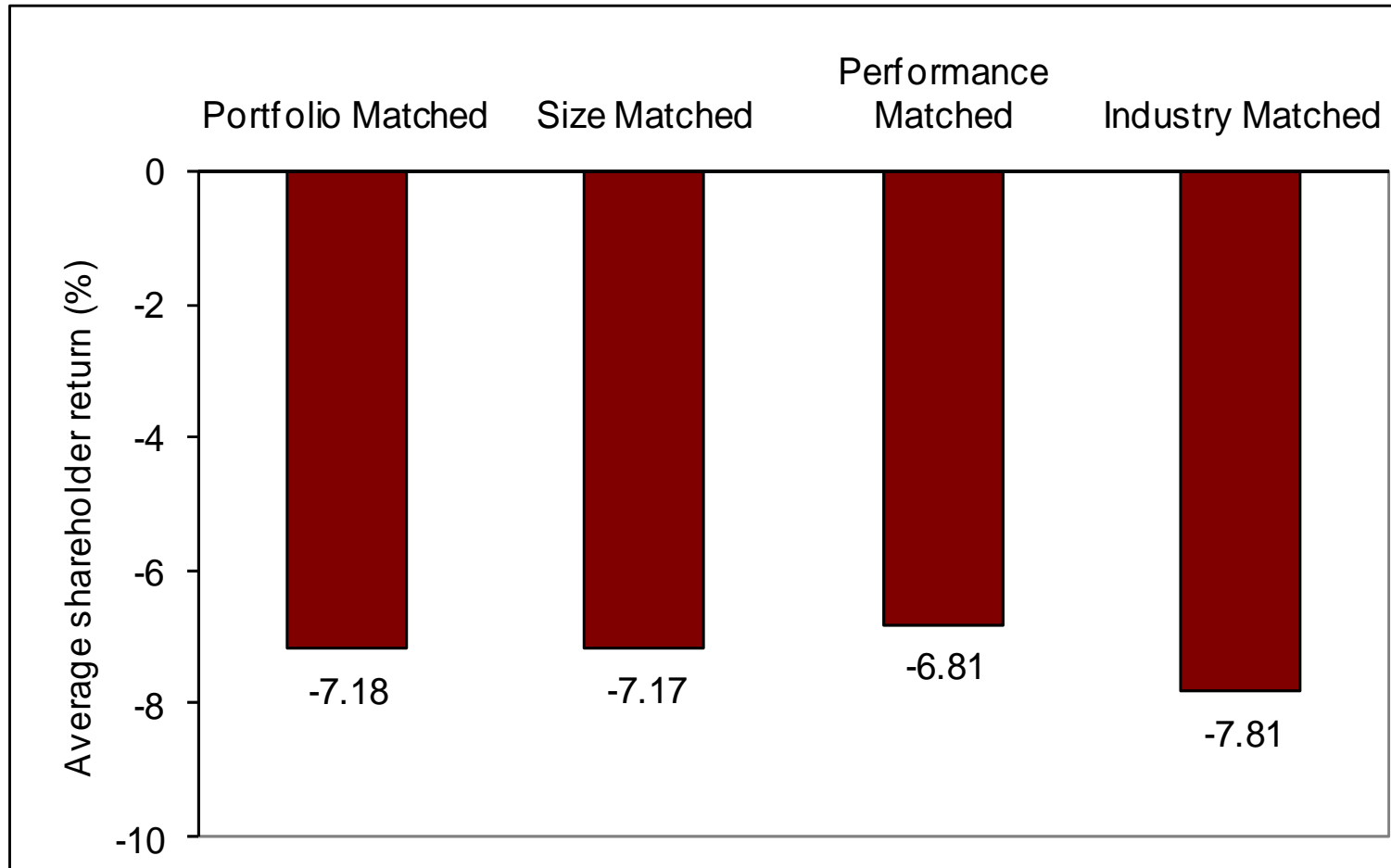
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Stock Market Reaction to Disruption Announcements



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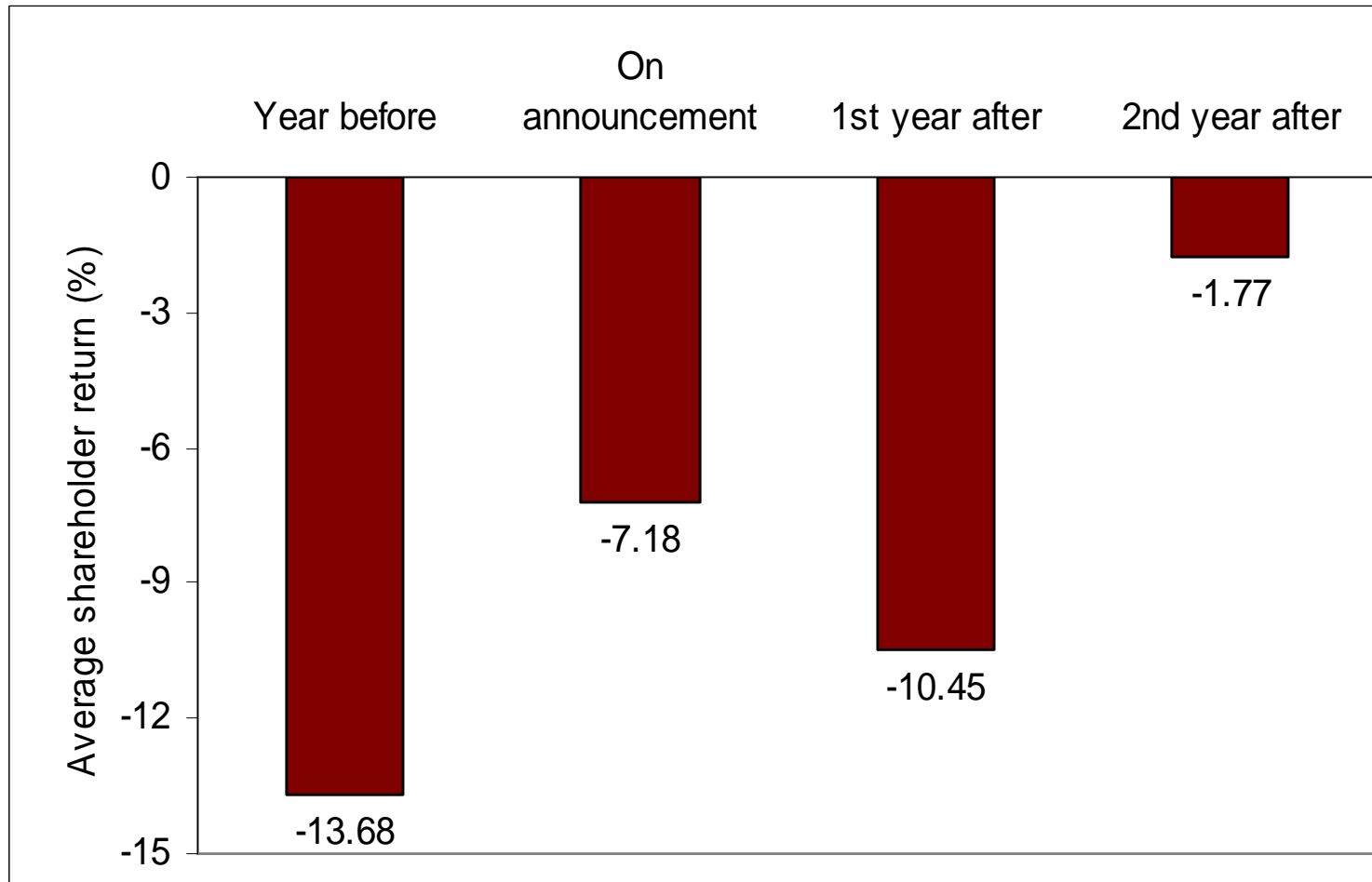
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Average Stock Returns Over Different Intervals



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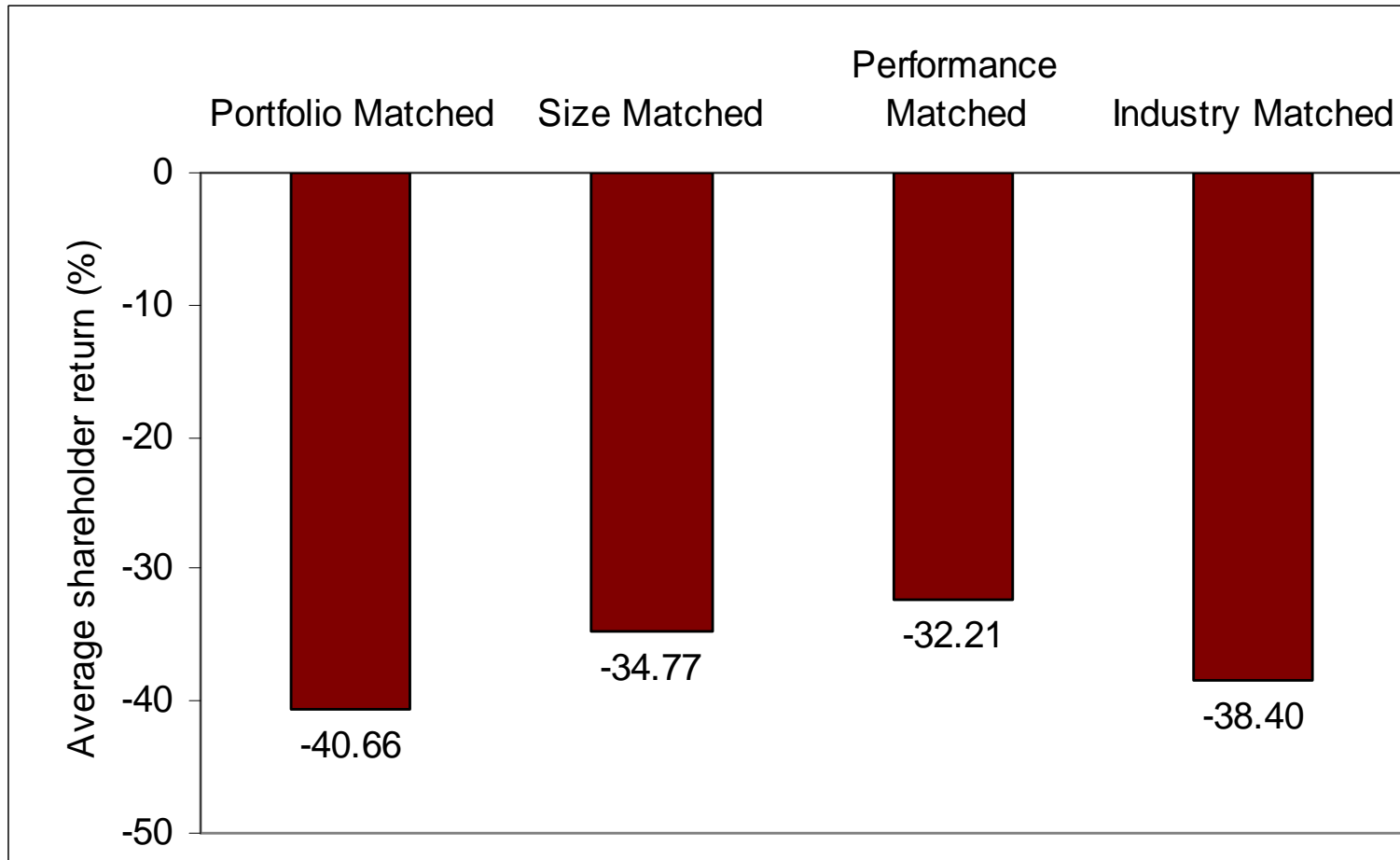
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Average Stock Returns Over Three Years



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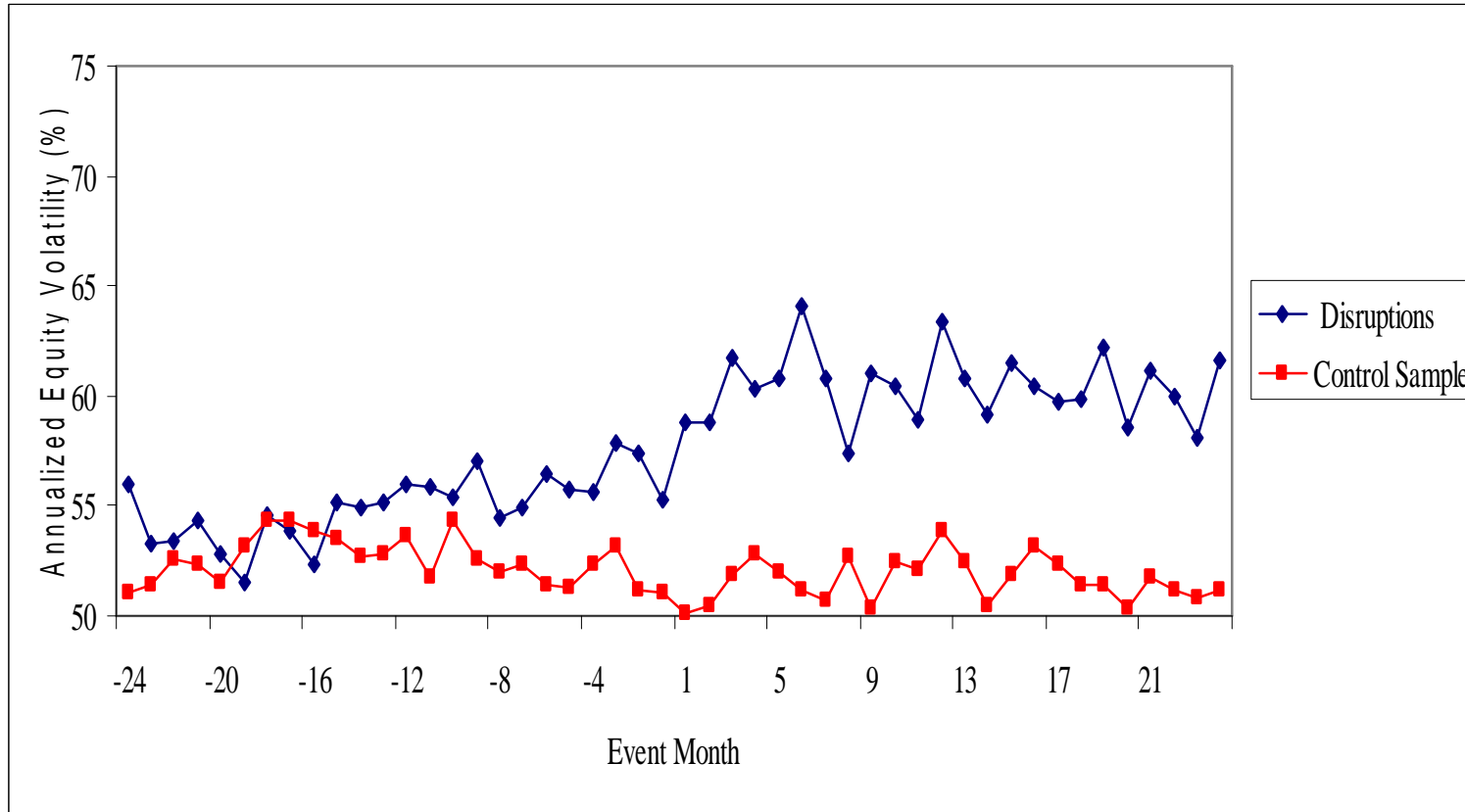
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Volatility Changes



On average 21% increase in volatility

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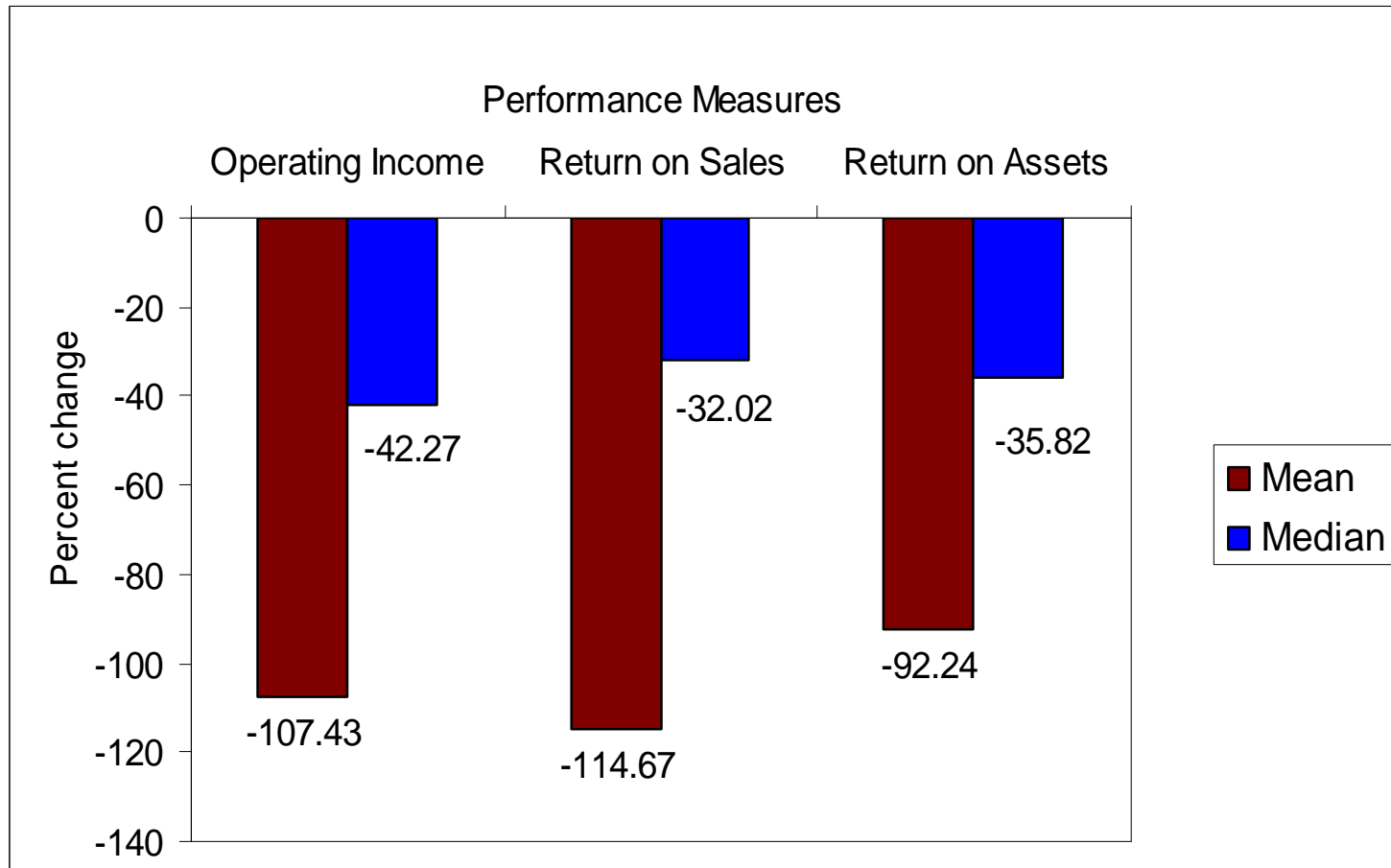
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Profitability Impacts of Disruptions



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Summary

- Disruptions cause significant destruction in corporate performance
- It does not matter who or what caused the disruption – you still pay
- Small firms suffer more from disruptions
- Firms do not quickly recover from disruptions

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Are supply chains more prone to disruptions today?

- Globalization of supply chains
- Increased reliance on outsourcing and partnerships
- Single sourcing
- Over-concentration of operations
- Little slack in the supply chain – focus on efficiency
- Tightly coupled
- Competition

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Managing Supply Chain Disruptions

- Top management involvement
- Scenario planning
- Contingency planning
- Visibility
- Diversification
- Build redundancy

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Final Thoughts

- Can you afford the risk of a major supply chain disruption?
- What is the easiest way to create shareholder value or make money? Stop losing it!

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Questions



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