

Supply Chain Disruptions Reportedly Increased by 30 Percent Last Year



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Written by Lauren M. Loew – 6/18/18

According to a report by JLT Specialty, the automotive industry “was the most disrupted sector in 2017” with an increase in supply chain disruptions by 30 percent over 2016. The JLT report identified the top five supply chain events as:

- Factory Fires or Explosions
- Mergers and Acquisitions
- Hurricanes, Typhoons, Cyclones
- Business Sales or Spin-offs
- Labor Strike or Disruptions

JLT also analyzed which events experienced by automotive supply chain companies have the greatest impact on the supply chain. They found that natural disasters impact the highest number of suppliers given the broad reach of those types of events. The top four disruptions were hurricanes/typhoons/cyclones, extreme weather, earthquakes, and floods based on the number of suppliers disrupted.

However, when measured in terms of time to recover from the disruption, labor strikes took the longest average time for suppliers to recover. On average, automotive companies took 52 days to recover from labor strikes. Natural disasters ranged from 16 to 22 days to recovery.

Geographically, North America had the highest number of disruption events—equal to Asia and Europe combined. One of the reasons for this was two severe hurricanes in North America which took a significant amount of time to recover.

A quick look at the news supports JLT's findings. In late May, Ford restarted production of its Ford F-150 and Super duty trucks after a fire at a components supplier in Michigan caused a drop in overall US industrial production for May. In Germany, automotive manufacturing was stalled for days in February after workers waged strikes. These types of disruptions occurred around the world.

JLT takes the position in its report that automakers are not focused enough on resilience in the supply chain. The impact that automakers face from disruptive supply chain events indicates that companies in the automotive industry need to be focused on contingency plans and proactive risk mitigation.

Several years ago, Dashboard Insights contributors wrote about the impact on the then-ongoing West Coast labor disputes and associated supply chain disruptions on suppliers. Specifically, they wrote about force majeure clauses, permitting a supplier to suspend performance under a supply contract when facing defined circumstances where the

supplier is unable to perform even by alternative means under the contract. Typical defined events included natural disasters, war and civil issues, labor disputes or strikes, government embargoes, and power outages—many of the same supply chain disruptions identified by JLT for 2017.

In light of the increasing number of disruptions, it is critical for automotive companies to take another close look at the contractual provisions governing these disruptions in their supply chain, and what the parties' rights and responsibilities are when faced with such disruptions.

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