Supply Chain Risk Management

Building Resilience in a Volatile World

October 14, 2025

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Benefits of Supply Chain Risk Management

Building resilience means creating systems and processes that enable the supply chain to anticipate, absorb, recover from, and adapt to unexpected disruptions.

Protects Financial Performance

Mitigates Financial Risk

Preserves Shareholder Value

Enables Strategic Flexibility

Reduces Dependency Risks

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BY THE NUMBERS

- According to a 2023 survey by the Business Continuity Institute, **over 70% of organizations experienced at least one significant supply chain disruption in the past year**.
- The World Economic Forum estimates that **supply chain disruptions cost companies an average of 6–10% of annual revenues**.
- Gartner reports that **it takes an average of 6–8 weeks to recover from a major supply chain disruption**, with some cases stretching much longer.
- Aon's 2025 Global Risk Management Survey, only **14% of respondents quantify their exposure to the top 10 risks** and just 19 percent use analytics to evaluate the value of their insurance programs.

Benefits: Protecting Financial Performance

Financial Implications

Lost sales due to supply chain disruptions can range from 10% to 40% of quarterly revenue, depending on industry and severity.

Increased Costs: Emergency sourcing, expedited shipping, or switching suppliers can raise costs.

Inventory Write-offs: Perishable or obsolete stock may need to be written off if supply chain delays occur.

Contract Penalties: Failure to meet delivery commitments can trigger penalties or lost business.

Indirect and Long-term Effects

Reputation Damage

Market Share Loss

Credit Rating Impact:

Additional Benefits of Effective Supply Chain Resiliency

Mitigates Financial Risk
Companies with resilient supply chains report up to **30% lower insurance premiums** and reduced write-offs related to inventory obsolescence.

Preserves Shareholder Value
Stock prices of companies with robust supply chain risk management practices tend to recover faster—up to 40% quicker—following major disruptions.

Reduces Dependency Risks
Diversification of suppliers can lower the risk of supply interruption by up to 60%, according to industry studies.

Supports Business Continuity
Companies with tested business continuity plans report up to 70% shorter recovery times after a disruption, minimizing revenue loss and operational downtime.

Drives Value Creation Resilient supply chains contribute to EBITDA margin improvement of 2–4 percentage points by reducing costs and capturing market opportunities.

Key Risks to Address

Proactively addressing these risks is essential to protect revenue, reputation, and operational continuity.

Supplier Reliability: Prevent disruptions from supplier failures or financial instability.

Logistics & Transportation: Mitigate delays from shipping, port, or trucking issues.

Geopolitical & Regulatory: Manage risks from trade wars, sanctions, or sudden policy changes.

Cybersecurity Threats: Protect operations from cyberattacks on partners or logistics systems.

Natural Disasters: Prepare for floods, storms, and other events that can halt production.

Quality & Compliance: Avoid costly recalls and penalties from defective or non-compliant products.

Labor Shortages & Strikes: Ensure continuity during workforce disruptions.

Core Strategies for Building Resilience

By systematically identifying vulnerabilities and preparing for disruptions, risk managers can significantly reduce the impact of unforeseen events and enhance organizational resilience.

Diversification:
Sourcing from multiple suppliers or regions to reduce dependency on a single source.

Contingency Planning:
Developing and regularly testing business continuity and disaster recovery plans.

Inventory Management:
Balancing just-in-time practices with strategic safety stock to buffer against disruptions.

Visibility:
Implementing technologies (e.g., real-time tracking, analytics) for end-to-end supply chain transparency.

Collaboration:
Strengthening relationships and communication with suppliers, partners, and stakeholders.

Aon's 2025 global risk management survey of risk management C-suite leaders and executives , revealed the top 10 risks on leaders' minds and many related to supply chain resilience.

1) Cyber Risk
2) Business Interruption Risk
3) Economic Slowdown
4) Regulatory and Legislative Changes
5) Increasing Competition
6) Commodity Price Risk and Material Scarcity
7) Supply Chain or Distribution Failure
8) Damage to Reputation or Brand
9) Geopolitical Volatility
10) Cash Flow and Liquidity Risk

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Protecting the Balance Sheet

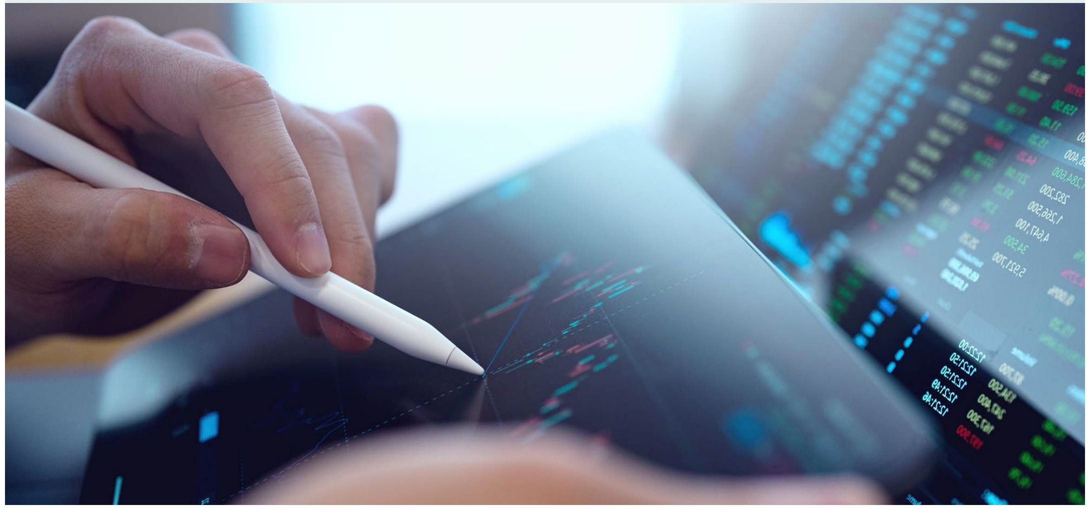
Understanding the financial implications of supply chain risk is key to protecting a company's balance sheet and overall financial health.

Risk Transfer and Financing

- **Supply Chain Insurance:** Protects against losses from specific disruptions (e.g., supplier insolvency, transport delays, political risks).
- **Contingent Business Interruption Insurance:** Covers lost profits due to supply chain interruptions outside your direct control.
- **Trade Credit Insurance:** Safeguards against non-payment by customers, especially in volatile markets.

Financial Resilience Strategies

- **Diversification:** Spreads risk by using multiple suppliers and sourcing from different regions.
- **Liquidity Management:** Maintain adequate cash reserves or credit lines to manage short-term shocks.
- **Flexible Contracts:** Negotiate terms that allow for adjustments in case of disruptions, such as flexible delivery dates or volume commitments.



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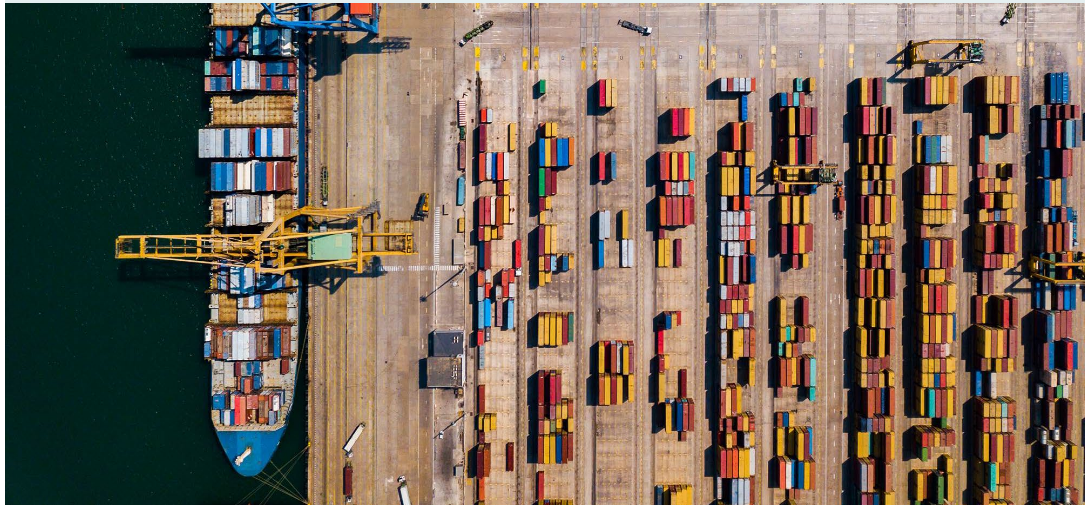
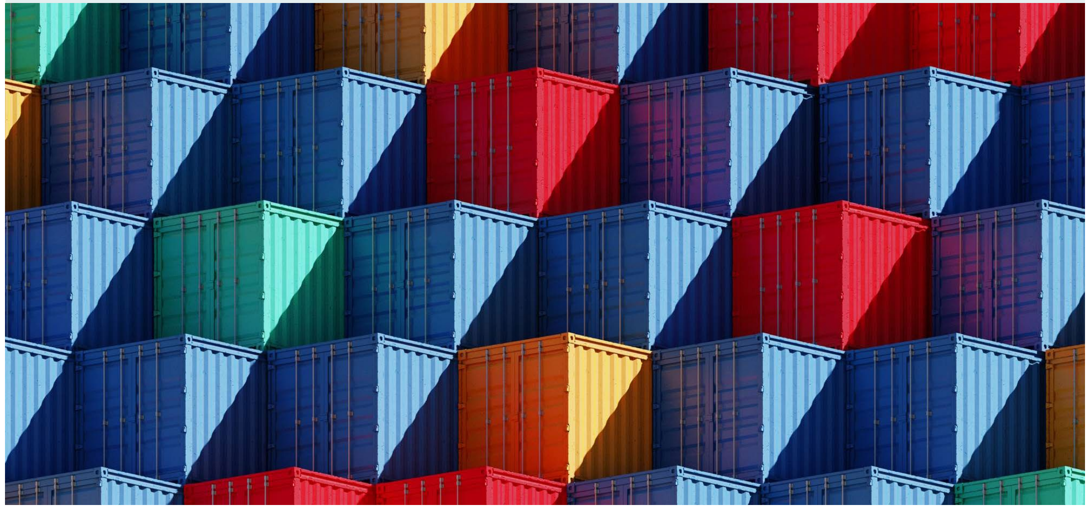
Visibility and Reporting

- **Regular Financial Stress Testing:** Simulate supply chain shocks and assess the impact on cash flow, profitability, and working capital.
- **Integrated Risk Reporting:** Include supply chain risk metrics in regular financial and board-level reports.
- **Supplier Financial Health Monitoring:** Regularly assess the financial stability of key suppliers to identify early warning signs.



Strategic Inventory Management

- **Safety Stock:** Hold buffer inventory for critical items, balancing carrying costs with risk exposure.
- **Just-in-Case vs. Just-in-Time:** Reevaluate inventory strategies based on risk tolerance and market volatility.



Proactive Risk Assessment Action Items

Proactive risk identification and mitigation in the supply chain is a multi-layered process that requires both strategic planning and ongoing operational vigilance.

1. Comprehensive Supply Chain Mapping

Visualize all tiers: Go beyond direct suppliers; map out sub-suppliers and critical logistics nodes.

Identify all critical nodes: Map out not just direct suppliers, but also sub-suppliers (tier 2, 3, etc.), logistics partners, warehouses, and distribution centers.

Identify dependencies: Note single-source suppliers, geographic concentrations, and key transportation routes.

Use digital tools: Employ supply chain mapping software for real-time visibility.

2. Risk Assessment and Prioritization

Catalog potential risks: Include natural disasters, geopolitical events, cyber threats, regulatory changes, labor strikes, transportation issues, and supplier financial health.

Assess impact and likelihood: Use tools like risk matrices or heat maps to prioritize which risks need immediate attention.

Scenario analysis: Model "what if" scenarios (e.g., what if a key supplier goes offline for a month?) to understand potential impacts.

3. Supplier Due Diligence and Collaboration

Evaluate supplier resilience: Assess suppliers' own risk management practices, financial stability, and contingency plans.

Foster transparency: Build relationships that encourage open communication about risks and disruptions.

Regular audits: Conduct site visits or remote audits to verify supplier practices and compliance.

Proactive Risk Assessment Action Items (cont'd)

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4. Real-Time Monitoring and Early Warning Systems

Leverage technology: Use supply chain risk management platforms, IoT sensors, and data analytics for early detection of disruptions (e.g., shipment delays, weather alerts, or political unrest).

External data feeds: Integrate news, weather, and geopolitical intelligence into monitoring systems.

5. Diversification and Redundancy

- **Multi-source critical items:** Avoid reliance on a single supplier or region for key components.
- **Alternative logistics routes:** Plan for backup transportation options and carriers.
- **Inventory buffers:** Hold safety stock for high-risk or high-value items, while balancing carrying costs.

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6. Business Continuity and Contingency Planning

- **Develop response plans:** Create detailed action plans for various disruption scenarios (natural disasters, cyberattacks, supplier failures).
- **Cross-functional teams:** Involve procurement, logistics, finance, and operations in planning and response.
- **Regular drills:** Test and refine contingency plans through simulations and tabletop exercises.

Proactive Risk Assessment Action Items (cont'd)

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7. Contractual Safeguards

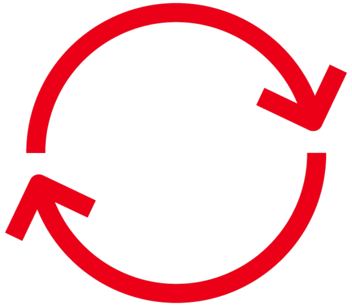
- **Flexible contract terms:** Include clauses that address force majeure, flexible delivery dates, and alternative sourcing options.
- **Supplier risk-sharing:** Negotiate shared responsibility for certain risks or disruptions.

8. Ongoing Training and Culture

- **Employee awareness:** Train staff on risk identification, escalation protocols, and business continuity procedures.
- **Continuous improvement:** After any disruption, conduct post-mortems to identify lessons learned and update risk management strategies.

9. Wash, rinse, repeat

This shouldn't be a static approach. Supply Chain Assessments should be a dynamic cycle.



Questions?