

How To Recover From Suez Canal Debacle And Prevent Another Supply Chain Crisis

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I write about crisis situations and related issues, news, and topics.





SUEZ, EGYPT - MARCH 29: The container ship 'Ever Given' is refloated, unblocking the Suez Canal on ...

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Now that the mega container ship that blocked the Suez Canal for several days has been freed, the recovery part of the crisis begins.

The blockage of the international waterway focused attention on the vulnerabilities of supply chains, the importance of having crisis management and contingency plans, and how similar crisis situations could be prevented or managed more effectively.

But before worrying about the next crisis, many business executives are focusing on bouncing back from this one.

Recovery Plan Template

How companies recover from a crisis is just as important as how they prepare and manage it. A detailed written recovery plan can serve as a roadmap that enables your organization to return to normal as fast as possible. It should include the following major provisions:

- Goals and objectives that must be met in order to fully recover from the crisis
- The specific tasks that have to be performed, and who will be responsible for them
- A timeframe for recovery
- The money, expertise, and other resources that will be needed

- A list of those who should be notified or consulted about the progress in recovering from the crisis
- The lessons learned from this crisis, and how those lessons will be applied to the operations and policies of the organization to ensure the crisis is not repeated

Just as companies should test their crisis and contingency plans to ensure they work when needed, businesses should hold table top, simulations, and other exercises to stress-test their recovery plans ahead of time and on a regular basis.

Damage Already Done

It does not take long for a crisis to have a negative impact on companies and organizations.

Peter Deans is a risk and strategy consultant and founder of 52 Risks. He observed that, “For many companies, the damage [from the Suez Canal crisis] has already been done, with costly delays arising from delays in receiving supply inputs or finished goods, either directly or indirectly via their suppliers.

“These delays will have resulted in lost sales and/or additional supply costs and freight charges. It will be important to reach out to those customers that will be impacted in the coming months.” He predicted that, “...supply chains will take at least several weeks if not months to return to normal.”

Deep Understanding Needed

Deans noted, “These type of events highlight the need for companies [to] have a deep understanding of their supply chains, understand ‘what can go wrong’ and have contingency plans for these scenarios. This includes having the financial resources to see through these incidents. Scenario planning workshops can be helpful in thinking about the specific events that can impact a business’ operations.

“As the Covid-19 pandemic has shown, it is critically important to have sufficient supplies of production inputs... to withstand any extended, external shocks and business disruptions,” he counseled.

Limited Options

Depending on the nature of a crisis, there may not be too many alternatives on how to bounce back. In the aftermath of the Suez Canal crisis, the options may be very limited.

Mark Dohnalek is the president and CEO of Pivot International, a global manufacturing, engineering, technology, product development company. “For companies to recover as quickly as possible from the backlog of ships in the Suez, they will have no choice but

to seek sourcing that uses transit routes outside of this area — either domestic or Asian,” he said.

“However, if they are sourcing products from Europe that originate from Asia, it is likely they would come via the Suez route. Therefore, they would be doubling down on procurement commitments, but if they have timeline urgencies, it would seem they have no choice. This transit route will suffer delays for likely weeks to come, due to the enormous backup caused from the blockage.”

Avoiding Future Problems

Dohnalek said in order to avoid another Suez Canal-type crisis, “... every company needs to have multiple sourcing options in place, as we learned during the pandemic. Another element of this recommendation would be to do business with one preferred vendor that has multiple operations across many regions of the world. This will avoid the massive impact a single location event would have on their business. This is by far the key toward mitigating exposure to these types of events in the future.”

Steer Clear of Choke Points

Some crisis situations can be prevented by steering clear of certain known risk factors. According to experts, the vulnerabilities associated with supply chains are readily apparent.

Usha Haley is the W. Frank Barton Distinguished Chair in International Business at Wichita State University and an expert on international production and international risk management. She said the crisis, “... demonstrated the choke points in our systems of international trade and production.” It showed, Haley said, “... that even our evolved supply chains have acute vulnerabilities to which companies and government will have to pay preemptive, rather than reactive attention.

“Both groups will need to plan for, budget and implement plans that circumvent these single points of failure, so that transportation, energy and communication networks can weather the crises without bringing the global trading system to a standstill. This will require systemic redundancies rather than efficiencies; organizational decentralization rather than centralization; production diversification rather than specialization,” she advised.

The Need For Government Partnerships

“Companies single handedly will have difficulties remedying these infrastructural choke points without partnering with governments,” Wichita State University’s Haley said. “The U.S. government is cognizant of the political and economic power of choke points in emerging technologies. View the concerns attending Huawei’s control of 5G networks. These

established transportation and shipping technologies have equal strategic and national importance. [And] how Iran has frequently used the Strait of Hormuz as a pressure point,” she noted.

No Support For Alternative Routes

“Unfortunately, world trade and its various constituencies have not supported back-up water and transportation routes. For example, Nicaragua’s proposal to link the Pacific and Caribbean Seas fizzled as world governments and companies saw the \$50 billion price tag as prohibitively expensive. As a lesson, the cost of the present Suez crisis may exceed that price tag within a few weeks,” Haley predicted.

Always Be Ready

A best practice for responding to and managing a crisis is to always be prepared for the unexpected.

Aleksandar Tomic is the associate dean for strategy, innovation, and technology at Boston College. He said that, “... as with any disruption, companies simply have to be ready. To do this, they need to assess which part of disruption is temporary, and which is permanent. Then, they need to be clear about the tradeoff of keeping extra inventory vs. delaying delivery.

What Matters Most

“Do the customers care more about price or the delivery time? Once a company knows this, they can plan better. To deal with delays, companies need to introduce slack in their system namely in form of higher inventories both of inputs and finished goods,” Tomic recommended.

“Of course, the cost of doing this must be balanced with penalties for late delivery. Companies also must have alternative sources of their critical inputs and try to understand each source's supply chain so that the company can diversify its supplier base relative to this particular risk. In other words, in this case it does you no good to have multiple suppliers if they are all sourcing from Asia through [the] Eastern Seaboard,” he said.

Communicate Clearly

Tomic advised that, “...companies must communicate openly and clearly [with customers]. In spot markets, such as oil/gasoline, there is not much to do. Prices rise bringing demand in line with supply, and everyone suffers a temporary pinch at the pump. In a more complicated situation where a company might not be able to meet a deadline, communication with the customer is the key with as clear as possible message surrounding delays, impacts, etc.”

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I'm the author of *Crisis Ahead – 101 Ways to Prepare for and Bounce Back from Disasters, Scandals, and Other Emergencies* (Nicholas Brealey) which was rated one of best

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