

Identifying potential continuity challenges in economically distressed times

LSEC BCM3 Seminar, April 28, 2009
Michel Eeman



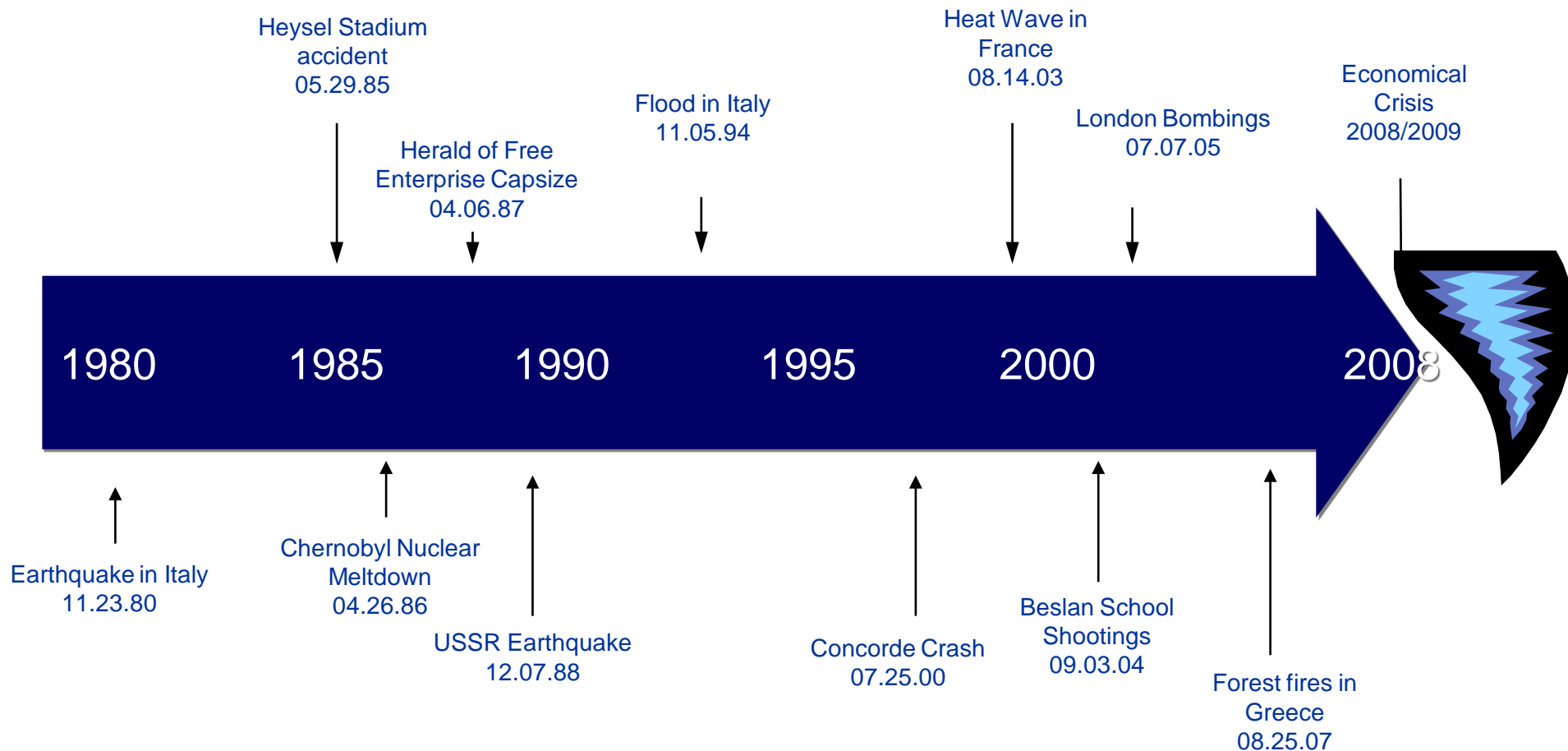
Agenda

- Introduction
- Supply chain challenges
- Human challenges
- IT challenges
- Dependency on utilities
- The pandemic threat
- Setting priorities
- Conclusion

Introduction

Disasters are the “New Normal”

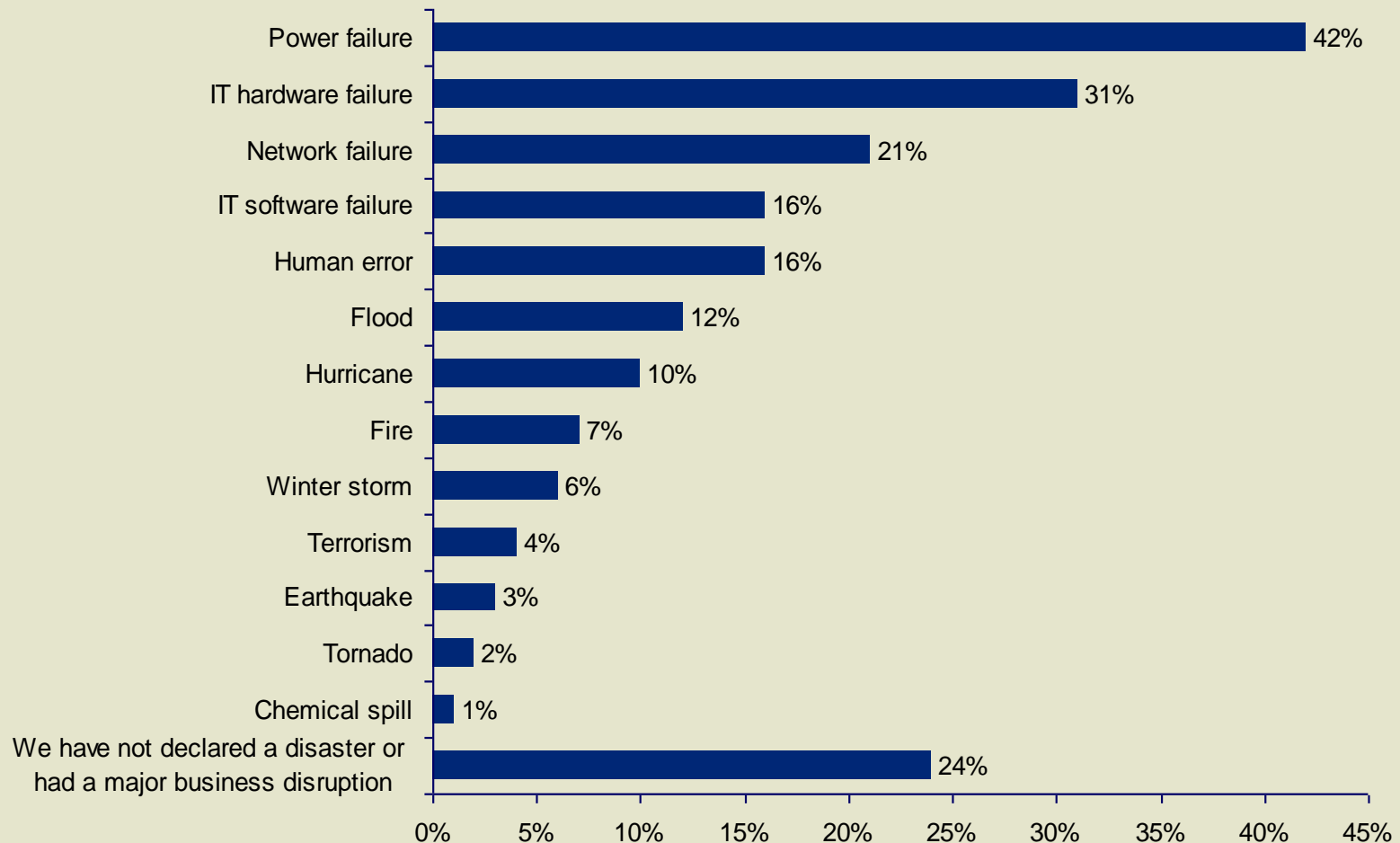
In 2006, 426 disasters affected 143 million people and resulted in \$35 billion in economic damage. The number of floods and related disasters was 43% greater than the 2000-2004 average. This trend has continued in 2007 and 2008. Each of these disasters has an impact on the Supply Chain.



Source: USA Today Article on January 3, 2008 – Written by the UN Under-Secretary-General for Humanitarian Affairs and Emergency Relief Coordinator

Causes of disasters

“What was the cause(s) of your most significant disaster declaration(s) or major business disruption?”



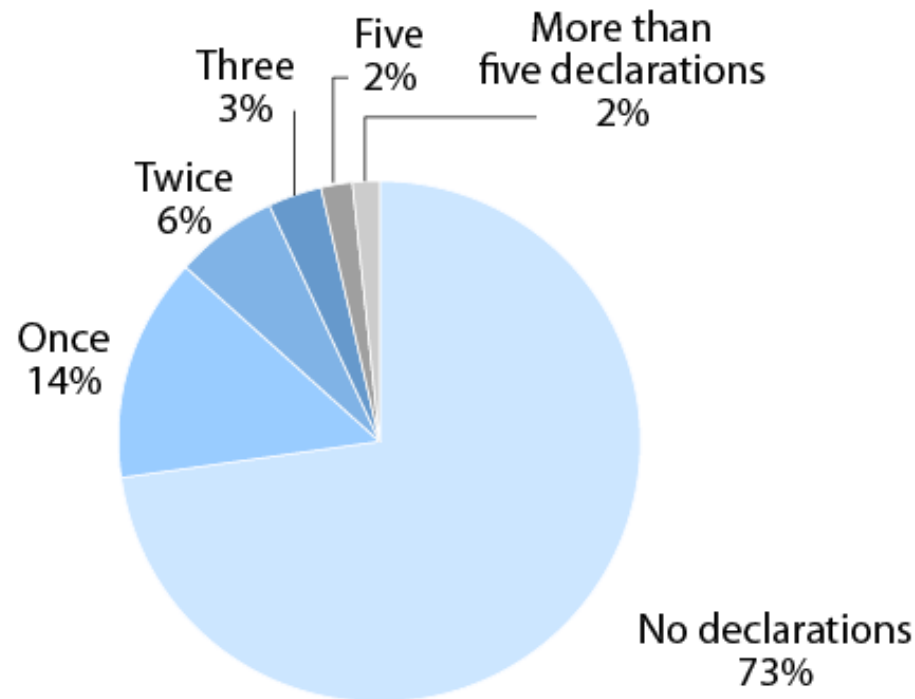
Base: 250 disaster recovery decision-makers and influencers at business worldwide (multiple response accepted) (does not include those who answered “Other” or “Don’t know”)

Source: Forrester/Disaster Recovery Journal October 2007 Global Disaster Recovery Preparedness Online Survey

More Than A Quarter Of Companies Have Declared A Disaster In The Past Five Years



“How many times have you had to declare a ‘disaster’ and recover operations at your recovery site in the past five years?”



Base: 250 disaster recovery decision-makers and influencers at businesses globally (percentages may not total 100 because of rounding)

Source: Forrester/*Disaster Recovery Journal* October 2007 Global Disaster Recovery Preparedness Online Survey

The challenge

- The current difficult economic situation does not reduce continuity related risks
 - Natural disasters
 - Terrorist threat
 - Pandemic threat
 - ...
- In fact, some risks even become more important
 - Technology risks
 - Supply chain risks
 - Financial continuity
 - ...
- Yet, many business continuity managers are faced with reduced budgets for maintaining or enhancing their organization's level of preparedness

Supply chain challenges

Example: the impact of a key supplier failure

Production line of Volvo cars Ghent came to a standstill (March 2009)

- Strike at Volvo's supplier (Fauceria) of dashboard parts

➔ Impact:

- No production of cars for more the 1 week
- Employees were technically unemployed and asked to stay at home
- Other suppliers of Volvo needed to stop there production as well (e.g. SAS)



Example of Global Material Flow



Supply chain resilience

- **Supply chain resilience** =
The ability of a company to deliver the product to a customer no matter what happens
- This requires
 - Understanding the supply chain and its vulnerabilities
 - Defining and implementing preventive measures
 - Planning for interruptions



Example of supply chain disruption

Nokia versus Ericsson

- **Year 2000 status**

Nokia and Ericsson were both big international players in mobile phone industry.

- **The Albuquerque fire**

On March 17, 2000, a small fire hit a microchip plant in Albuquerque (NM) owned by Philips which **supplied chips to both Ericsson and Nokia.**

- **Nokia versus Ericsson**

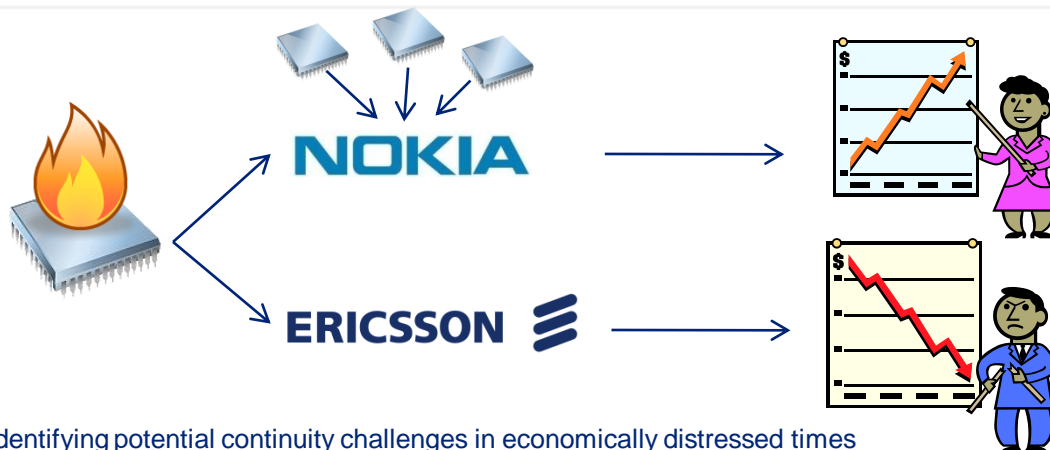
Since Ericsson had decided to buy key components from a **single source** to simplify its supply chain, **it lost many months of production**, and hence many sales in a booming market.

Nokia acted swiftly and moved to tie up spare capacity at other Philips plants and even modify some of its phones so they could take chips from **Japanese and American suppliers.**

Nokia has now around a **40% market share** of the sector.

Consequences

- Damage to Corporate Brand
- 400\$ million in lost sales
- Supply Chain Disruption
- Ericsson left the mobile-phone business



Example of supply chain disruptions

Key supplier failure

Fire in Industrial Bakery La Lorraine (2008)

- Entire production building destroyed
 - 500 people in the neighbourhood had to evacuate their houses
- ➔ Impact:
 - 400 people technically unemployed
 - Major customers (Delhaize, Panos, ...) affected
 - Revenue loss for La Lorraine



Human challenges

Human threats during economic uncertain times

Human threats have always been a risk to the continuity of an organisation. In economically uncertain times this threat increases even more by:

- Loss of employee moral due to uncertain working conditions
- Collective lay-offs
- Higher risk of bankruptcy
- Plant closedowns
- Strikes and blockades
- Etc.



- As a consequence of the current economical situations, staff will react faster to potential negative news which can cause significant financial, operational and brand impact.

Human challenges during economic uncertain times

Transport blockades

French fishermen block three channel ports in protest at EU fish quotas (2009)

- Entire fleets of boats prevented ships entering or leaving harbours at Boulogne, Calais and Dunkirk.

➔ Impact:

- Disturbed ferry, car and truck traffic
- Late arrival of shipments
- Temporarily closure of plants
- Revenue loss for several companies



Chaos at the Channel Tunnel entrance in Calais (left) and an orderly queue of lorries on the M20, in Kent, where police had implemented Operation Stack (right)

Human challenges during economic uncertain times

Strike

Aviation sector affected by a pilot strike
(November 2008)

- Trigger: Age limit for the pilots has been raised from 60 to 65 years
- Duration of the interruption: 4 days (14/11/2008 -> 17/11/2008)

➔ Impacts:

- Aviation company mainly affected: Air France
- Traffic limited to 60% of the long distance lines and 50% of the short and medium distance lines



Time	Destination	Vol	Facturacion		
hora	Destino	Vuelo			
1020	Antananarivo	AF 908	NW 4494	4	A l'heure
1025	Delhi	AF 148	AI 7148	6 - 7	Annule
1030	Douala	AF 946	DL 8556		Annule
1030	Mumbai	AF 134			
1040	St Martin	AF 488	AZ 3696	4	A l'heure
1045	Bangalore	AF 192	DL 8461	6 - 7	A l'heure
1045	Libreville	AF 976	DL 8446		Annule
1100	Brazzaville	AF 896	NW 4326	6 - 7	A l'heure
1215	St Petersburg	FV 236		3	A l'heure
1325	Abidjan	AF 702	NW 4306		Annule
1330	La Havane	AF 474		6 - 7	A l'heure
1335	Cotonou	AF 814	KL 2274		Annule

Human challenges during economic uncertain times

Strike

Strike at Ikea stores in Belgium (October 2008)

- Trigger: proposal of collective bonuses, implementation of night shifts
- Duration of the interruption: 1 day

➔ Impacts:

- Loss of revenue
- Impact on brand image



Human challenges during economic uncertain times

What can we do to limit the impact?

- **Limit lay-offs** as much as possible as you will need sufficient critical mass once the crisis has passed.
 - Economical/technical unemployment
 - Promote the use of time credit
 - Use early retirement as an alternative to collective lay-offs
 - Train and reassign resources to other functions in the organisation
- **Clear and transparent communication towards employees** in case of economical distress
- **Involve employees** in the decision taking process when possible



IT challenges

IT challenges during economic uncertain times

- IT challenges have always been a risk to the continuity of an organisation. In economically uncertain times this threat increases further by:
 - The dependency on 3rd party suppliers (going out of business)
 - Loss of skills and expertise to recover from an IT incident due to lay-offs (internal and external)
 - Decrease of skilled resources
 - Contraction of roles and responsibilities by limiting the number of functions

IT challenges during economic uncertain times

IT systems down

London City Airport (April 2009)

- Due to a collapsed tunnel in the East London area which caused loss of connectivity to the system

→ Impact:

- check-in was done on paper which caused chaos and severe delays at the check in desks



IT challenges during economic uncertain times

IT failure

“Computer glitch disrupts major U.S. airports” (2008)

- Federal Aviation Administration system failure:
 - The facility south of Atlanta had problems processing data, requiring that all flight-plan information be processed through a facility in Salt Lake City, Utah, which led to an overload of that facility.
- ➔ Impact:
 - Hundreds of flights delayed
 - Travelers across the United States were stranded in airports



IT challenges during economic uncertain times

IT failure

“Amazon.com site hit by outage on Friday” (2008)

- Failure of Amazon.com’s main server:
 - Outage lasted approximately 1 day

→ Impact:

- Customers / visitors could not access the Internet store
- Revenue loss for Amazon.com
- Share price minus 4,3 %



IT challenges during economic uncertain times

What can we do to limit the impact?

- Shift continuity plans from long detailed processes to intuitive, clear to the point plans
- Shift focus from recovery only to risk management and business resilience
- Test and train continuity plans
- Ensure key resources for recovery have a back-up even when limiting the functions and combining roles and responsibilities
- Spread the risk of an IT outage due to lack of maintenance by having multiple 3rd parties (if feasible)
- Keep plans up-to-date
- Address people, process, and technology as the key components for controlling risk



Dependency on utilities

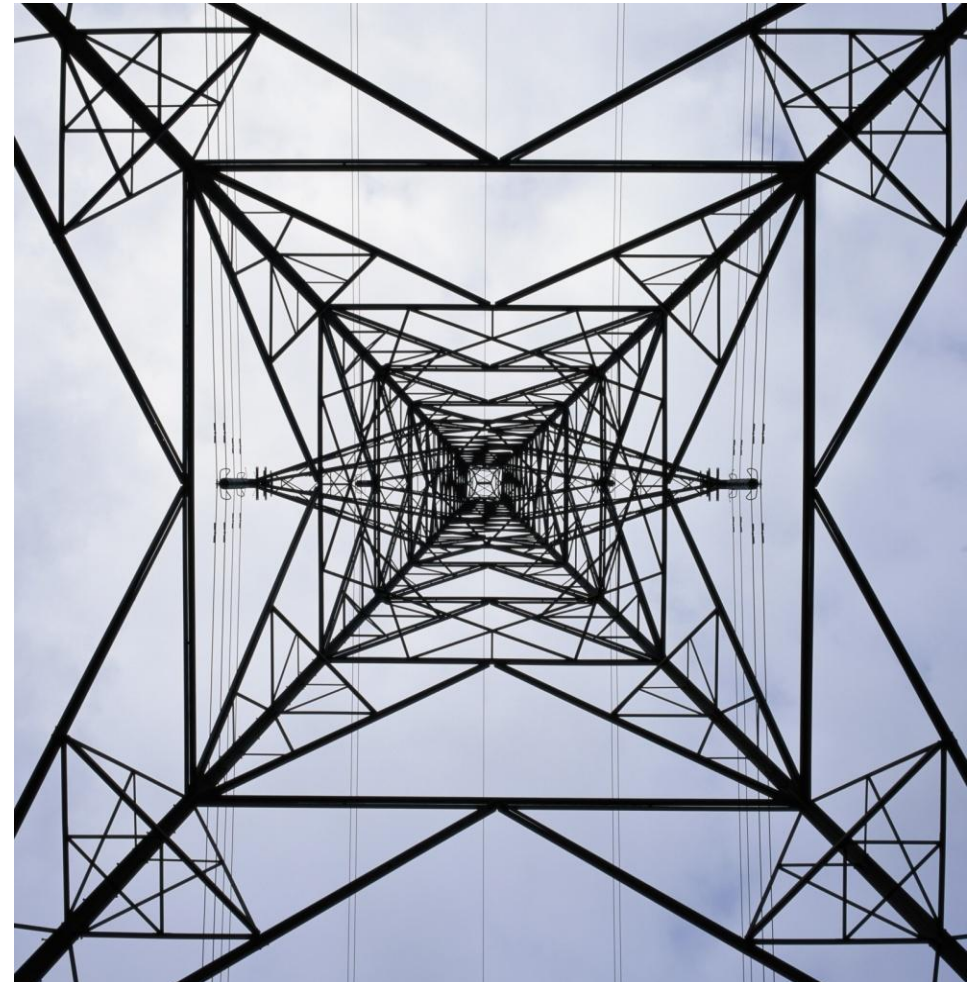
IT challenges during economic uncertain times

Power failure

Major power failure in Germany
(November 4, 2006)

➔ Impact:

- Also caused problems in other countries
 - Power outage in several villages in Belgium
 - Power issues in France, the Netherlands and Italy
- Demonstrated dependencies between European countries
- A problem in 1 country leads to a chain reaction in all connected countries



The pandemic threat

Pandemics: Snapshots from History

1918 – 1919: Spanish Flu Influenza

- Killed between 20 and 50 million people worldwide
- Swept through North America, Europe, Asia, Africa, Brazil, and South Pacific
- Between 20 to 40% of the world's population became ill
- Mortality rate was 2.5%
- Infection spread following the path of human carriers

1957 – 1958: Asian Flu H2N2 Influenza

- 2 million deaths worldwide

1968 – 1969: Hong Kong Flu H3N2 Influenza

- 1 million deaths worldwide



A flu pandemic would lead to 1,4 million to 70 million deaths.

United Nations

The economic impact of a flu pandemic could amount to 3.000 billion dollars.

World Bank



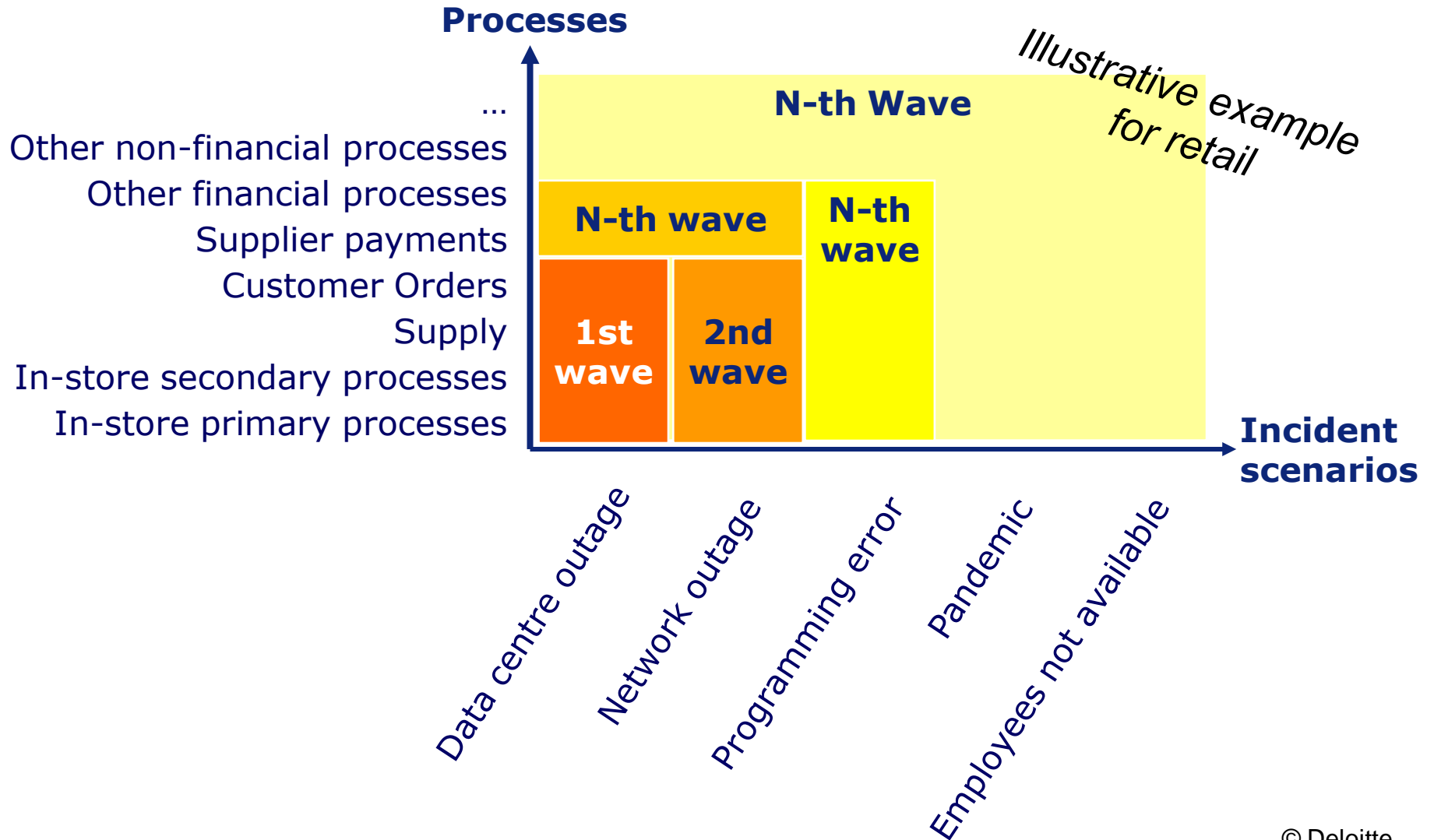
Challenges and Responsibilities

All levels of government, businesses, and individuals will be impacted and will be responsible for pandemic preparedness and response

Actor	Challenge	Responsibility & Expectations
Federal Government	<ul style="list-style-type: none"> Coordinating varying levels of government and international partners for response activities 	<ul style="list-style-type: none"> Develop national pandemic strategy and conduct preparedness, surveillance, and response/containment activities Facilitate state and local planning through funding and guidance
State/Local Governments	<ul style="list-style-type: none"> Increased demand on public services Demand for risk communication to public 	<ul style="list-style-type: none"> Integrate non-health entities in planning (law enforcement, utilities, city services) Develop medical surge capacity plans
Critical Infrastructure Entities	<ul style="list-style-type: none"> Loss of workforce as employees stay home out of fear or to take care of families 	<ul style="list-style-type: none"> Establish plan to maintain essential services and operations Establish contingency systems to maintain delivery of goods/services during worker absenteeism
Medical Community	<ul style="list-style-type: none"> A surge in demand for medical services. Health care workers will be exposed to the disease and may become sick. Care for non-acute health problems will decrease. 	<ul style="list-style-type: none"> Provide intervention Conduct surveillance activities
Individual and their Families	<ul style="list-style-type: none"> Fear of infection and lack of information regarding services and treatment 	<ul style="list-style-type: none"> Learn how to prevent and reduce spread of infection Be prepared at home with supplies to support household
International Partners	<ul style="list-style-type: none"> Integrating multiple and widespread efforts to mitigate the outbreak. Providing timely data and information across the world 	<ul style="list-style-type: none"> Report and share data/information across partners Coordinate and support expanded operations across multilateral organizations
Employers	<ul style="list-style-type: none"> Reduced workforce Limited ability to provide goods and services Interoperability between various industries 	<ul style="list-style-type: none"> Establish flexible workplace policies and procedures Establish crisis management and alternative methods to maintain operations Ensure preventive measures are implemented

Setting priorities

Prioritising processes and scenarios



Conclusion

Conclusion

- The current economic crisis presents additional challenges for the continuity of organizations, due to
 - Increased vulnerabilities in the supply chain
 - Increased vulnerabilities in your organization's IT
 - Often, decreased budgets for business continuity
 - ...
- The smart organization understands the added value of BC and will continue to invest in enhancing its business continuity capabilities by
 - Understanding the threats and vulnerabilities it faces
 - Developing, implementing and testing continuity solutions

Questions?

Deloitte.

Michel Eeman
Senior Manager

Enterprise Risk Services
Berkenlaan 8b
1831 Diegem
Belgium

Tel. +32 2 800 23 19
Mob. +32 473 91 03 99
meeman@deloitte.com
www.deloitte.be

Deloitte.