



MANAGING CHRISTMAS RISK

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ALL CORPORATES WANT FOR CHRISTMAS IS TO MANAGE ENTERPRISE RISK

Since the summer, many factories, retailers, merchants and businesses around the world have been gearing up for the December festive season. Factories that make electronics and consumer products work around the clock to have goods ready in time for Black Friday and the intensely busy seasonal selling month that follows.

This is a joyous time, however, it is also a time of the year that presents great risk. We live in a connected world of rapidly growing online purchasing trends and connected supply chains that requires an integrated risk management strategy and framework. Key drivers of risk during this time include supply, cyber, political violence, credit, and natural perils.

Large corporations are no longer – if they ever were – defined by their location. A corporation like Apple, for example, has many suppliers. In the past it has been subject to criticism about a lack of transparency in its supply chain but that has changed in recent years with the company conducting hundreds of audits and even naming and shaming suppliers that hired underage workers or failed their duty of care in some way.

Apple has published its 2015 top 200 supplier list and its suppliers now employ more than **1.6 million people in 20 countries**. As part of its program, Apple even audits the facilities providing manufacturing services to its suppliers. The company continues to have its critics but

there is no question that it takes its supply chain responsibilities seriously. Reputations matter, particularly at Christmas so it is important to get risk management right at this time of year.

Not all organisations take their supply chain risk so seriously, however. The Supply Chain Resilience survey highlighted that 62 per cent of business continuity professionals felt “top management commitment to managing the supply chain is inconsistent or totally lacking.”

Supply chain is increasingly a concern for CEO and CFOs. In the article that follows we look at the connected risk of not having an integrated risk management strategy for Christmas this year across 5 connected risk drivers - Political Violence, Supply Chain, Cyber, Natural Perils, and Credit.

Supply Chain

30-day payment schedules (or shorter) - many smaller manufacturers say that their supply chain members are not connected electronically, which impacts on inventory management strategies and supply chain agility... Compliance is a risk—across the world we have witnessed a significant increase in regulations. But smaller factories and manufacturers with less resource struggle to implement many and turn to packaging and logistics companies to do a lot of the compliance work for them which adds an extra burden to the busy festive season.

That old British favourite the weather - forecasting weather is a risk that drives up inventory holding positions, logistics speed and costs. Then think about the transportation and the Logistics Network - increasingly, transportation is the glue that holds global trade together. As the world's consumers increase in numbers, energy pricing, demand, and capacity vary from year to year. Meanwhile, ethical customers want more transparency during the long journey to the store or, increasingly, direct to their home.

Cyber

The consultancy firm Grant Thornton estimates that the global total cost of cyber-attacks on businesses stood at **\$280 billion in 2016**, while the number of affected businesses increased **6%** on last year to **21%** of the sample

'Loss of reputation' was the primary cited impact of a cyber-attack by **29%** of respondents.'

Cyber insurance, touted to be one of the fastest growing crisis insurance segments, remains relatively underutilized, **52% do not have cyber insurance, 35% do, while 13%** are not aware of possible coverage. The industry itself remains in its nascent stages, with vendors still devising the best way to protect companies, particularly large companies.

From a festive season perspective, the retail environment has some unique factors that make cyber detection more difficult. Retailers employ large numbers of seasonal workers. For example in the UK, **Toys R Us announced that it will be employing 1500 seasonal workers** for Christmas and global giant **Amazon is employing 20,000** seasonal workers during the same period. So knowing whether a particular person should be allowed near a secure server in the back room of a store may be difficult.

At the same time the extra footfall in retail stores may weaken security checks, and the sheer volume of transactions, returns, and special orders can distract employees, creating security lapses.

Natural Perils

On a slightly more whimsical note, one recent media headline predicted that moist, warm conditions across Britain could have created a **shortage of top quality Christmas trees** for the market. The conditions were said to have made popular Nordman firs grow too fast and this, along with bouts of fungus and disease, has drastically reduced supply. The reality, according to Harry Brightwell, secretary of the British Christmas Tree Growers Association, is that 2016 is expected to be a good year for British tree growers.

Fears that Christmas dinners could end up missing one of their most essential side dishes, **Brussel sprouts**, also seem groundless. Media warnings that sprout supply could be a "nightmare" in the run up to Christmas after crops were devastated by a pesticide-resistant moth over summer, coupled with warm temperatures in the Netherlands, should be taken with a pinch of salt. "Sprouts supplies are tight for 2016 but most of the major suppliers will be managing this situation with their customers," said chair of the Brassica Growers Association Matthew Rawson. Good news for lovers of Brussel sprouts!

Political Violence

The state department recently issued an alert to US citizens about a heightened risk of terrorist attacks throughout Europe, particularly during the Christmas holiday season. "U.S. citizens should exercise caution at holiday festivals, events, and outdoor markets," it said in a statement, adding that there was credible information that Islamic State, also known as Isil, al-Qaeda and their affiliates continued to plan attacks in Europe.

Meanwhile, the scale of the terrorism threat to the UK is "unprecedented", the head of MI6 has said, a warning which was compounded by reports of armed police patrolling at outdoor markets in Birmingham and Newcastle this festive period. Alex Younger said UK intelligence and security services had disrupted 12 terrorist plots since June 2013. He said many of the threats came from ungoverned spaces in the Middle East - namely Iraq and Syria. Mr Younger also warned that "hybrid warfare", which included cyber-attacks and subverting democracy, was becoming an "increasingly dangerous phenomenon."

As mentioned above, a retailer during the Christmas period manages chaos every day. It can be easier for an attack or attacks to be launched without notice during the noise and general hubbub. Recall the advice given to New Yorkers after 9/11: "If you see something, say something." Relying on employees to notice unusual behaviour is a smart way to approach the problem. Another approach is to arm an enterprise with smart technology that understands normal behaviour and can raise an alarm when behaviour is suddenly not normal.

Credit

With the retail industry's biggest season quickly approaching, every facet of the sector needs to re-evaluate plans to mitigate the increased risk that comes with increased demand. The holidays are certainly not the time to lose out on business due to breakdowns in the supply chain, loss of inventory from theft, or the fallout from credit risk.



Yet a shocking **13%** of retailers are doing nothing to manage their risk, according to a new study.

It is an alarming statistic when one considers what happened last year when a string of retailers faced insolvency in the New Year with tough trading on the high street in the run-up to Christmas leaving businesses fighting for survival. Widespread discounting and warmer-than-average weather similar to this year's ramped up the pressure on high street retailers over the festive period. In the last few years a number of high street retailers have called in administrations either just before or after Christmas, including Woolworths, HMV, Zavvi, and Jessops.

Retailers generate roughly 40% of their annual profits between October and December, underlining the importance of the period. However, if a high street business struggles during the festive season then its death knell is typically the quarterly rental payment they have to make to landlords at the end of December.

Conclusion

According to Supply Chain Magazine, networked companies have a major advantage over their competitors. Collaboration is a crucial element of a supply chain and more companies are starting to integrate throughout their suppliers and customers' network.

Corporates need to work as an integrated network with access to the latest data, and working towards a shared mission to deliver results. Integrated risk strategies can be planned and implemented to achieve shared solutions and create a business network that allows companies to be agile, responsive, flexible, and efficient.

Siloed companies are falling behind. Businesses which break down silos by focusing on

transforming efficiency, transparency and risk exposure will gain an advantage. Overall net savings can be measured through reduced routing delays and faster reactions to changing trends.

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