

PD 25222:2011



BSI Standards Publication

PUBLISHED DOCUMENT

Business continuity management – Guidance on supply chain continuity

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ISBN 978 0 580 73902 6

ICS 03.100.01

The following BSI references relate to the work on this standard:
Committee reference BCM/1

Publication history

First published December 2011

Amendments issued since publication

Date	Text affected
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Summary of pages

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Foreword

Publishing information

This Published Document is published by BSI and came into effect on 31 December 2011. It was prepared by BSI panel BCM/1/-/3, *Third party supplier continuity*, under the authority of Technical Committee BCM/1, *Business continuity*. A list of organizations represented on this committee can be obtained on request to its secretary.

Relationship with other publications

This Published Document is intended to be read in conjunction with the following.

- BS 25999, *Business continuity management*.
- BS 11000, *Collaborative business relationships*.

Presentational conventions

The guidance in this Published Document is presented in roman (i.e. upright) type. Any recommendations are expressed in sentences in which the principal auxiliary verb is "should".

The word "may" is used in the text to express permissibility, e.g. as an alternative to the primary recommendation of the clause. The word "can" is used to express possibility, e.g. a consequence of an action or an event.

Commentary, explanation and general informative material is presented in smaller italic type, and does not constitute a normative element.

Contractual and legal considerations

This publication does not purport to include all the necessary provisions of a contract. Users are responsible for its correct application.

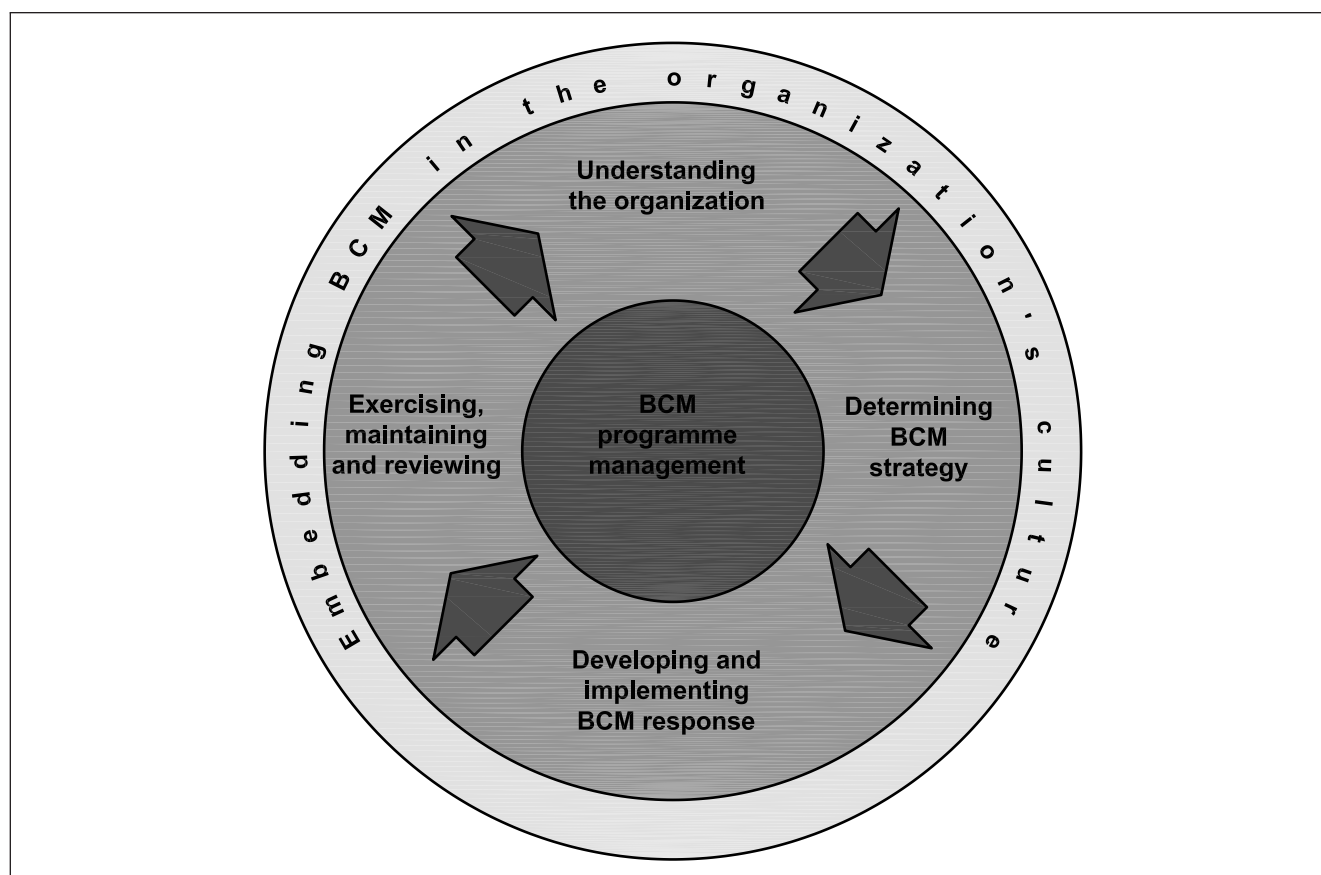
Compliance with a Published Document cannot confer immunity from legal obligations.

Introduction

It is important for an organization to implement a process of supply chain continuity management as there are occasions where the organization relies on key suppliers to deliver critical products/services on time. To that end, this Published Document (PD) gives guidance on continuity management within the supply chain, including obtaining assurance of suppliers' own continuity arrangements (possibly through certification to a continuity standard, such as BS 25999). It is intended primarily for the supply procurement community (anyone buying a product or service necessary to an organization's critical products or services, whether or not part of a dedicated procurement department), rather than dedicated business continuity managers. The text is, however, mapped to the business continuity management lifecycle of BS 25999 (see Figure 1). While the PD focuses primarily on key suppliers, it acknowledges that vulnerabilities might also arise from dependence on key customers so that it is necessary for an organization to consider the implications of disruptions to such customers.

The PD covers the supply of products and services, both internally and externally, to service level agreements (SLAs) under any type of ongoing supplier relationship, though it might also cover certain one-off relationships. In so doing, the PD promotes the classification of suppliers according to "tier", the importance/criticality of the product/service they supply to the organization, and "layer", their "distance" from the organization (i.e. a layer 1 supplier has a direct contractual relationship with the organization, while a layer 2 supplier supplies products and services to a layer 1 supplier). The focus is on layer 1 suppliers, with other suppliers addressed as resources permit.

Figure 1 The business continuity management (BCM) lifecycle



1 Scope

This Published Document gives guidance on continuity management within the supply chain. Guidance is given on practical methods for understanding and extending the principles of business continuity management (BCM), as embodied in BS 25999, to the management of supply relationships. It covers relationships upstream and downstream, between suppliers and customers, and between organizations in the same tier of the supply chain.

The guidance is generic and intended to be applicable to all organizations (or parts thereof), regardless of type, size and nature of business. It is applicable to the supply of products and services, both internally and externally, to SLAs under any type of ongoing supplier relationship, though it might also be applicable to certain one-off relationships. The extent of application of the guidance depends on the organization's operating environment and complexity.

The Published Document does not give guidance on developing a business continuity plan or business continuity management system (see BS 25999) or on the mitigation of causes of supply chain interruption or specific hazards.

2 Normative references

The following referenced documents are indispensable for the application of this document. For dated references, only the edition cited applies. For undated references, the latest edition of the referenced document (including any amendments) applies.

BS 25999-1:2006, *Business continuity management – Part 1: Code of practice*

BS 25999-2, *Business continuity management – Part 2: Specification*

3 Terms and definitions

For the purposes of this Published Document the following terms and definitions apply.

3.1 business continuity management

holistic management process that identifies potential threats to an organization and the impacts to business operations that those threats, if realized, might cause, and which provides a framework for building organizational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities

NOTE Business continuity management involves managing the recovery or continuation of business activities in the event of a business disruption, and management of the overall programme through training, exercises and reviews, to ensure the business continuity plan(s) stays current and up-to-date.

[BS 25999-1]

3.2 business impact analysis

process of analysing business functions and the effect that a business disruption might have upon them

[BS 25999-1]

3.3 critical activities

those activities which have to be performed in order to deliver the key products and services which enable an organization to meet its most important and time-sensitive objectives

[BS 25999-1]

3.4 critical customer

customer the loss of whose business would jeopardize the survival of the organization

3.5 critical supplies

products/services obtained from a supplier whose loss would quickly disrupt the organization's critical activities

3.6 critical supplier

provider of critical supplies

NOTE This includes an "internal supplier", which is a supplier that is part of the same organization as its customer.

3.7 disruption

event, whether anticipated (e.g. a labour strike or hurricane) or unanticipated (e.g. a blackout or earthquake), which causes an unplanned, negative deviation from the expected delivery of products or services according to the organization's objectives

[BS 25999-1]

3.8 organization

group of people and facilities with an arrangement of responsibilities, authorities and relationships

EXAMPLE. Company, corporation, firm, enterprise, institution, charity, sole trader or association, or parts or combinations thereof.

NOTE 1 The arrangement is generally orderly.

NOTE 2 An organization can be public or private.

[BS EN ISO 9000:2005]

3.9 recovery time objective (RTO)

target time set for:

- resumption of a product or service after an incident; or
- resumption of performance of an activity after an incident; or
- resource recovery after an incident

NOTE The recovery time objective of a product, service or activity has to be less than its maximum tolerable period of disruption.

3.10 supply chain

network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer

(Christopher 1998 [1])

3.11 supply chain continuity management (SCCM)

application of business continuity management to the supply chain

3.12 top management

person or group of people who direct and control an organization at the highest level

[BS EN ISO 9000:2005]

NOTE Top management, especially in a large multinational organization, might not be directly involved; however, top management accountability through the chain of command is manifest. In a small organization, top management might be the owner or sole proprietor.

4 Why is supply chain continuity important?

4.1 Introduction

All organizations rely on some form of supply chain. Supply chains are becoming increasingly complex and extended (often internationally), exposing the organization to new and additional risk of supply chain interruption. Efficient supply chains can also be more vulnerable when exposed to disruption (see BS 25999-1:2006, Clause 4).

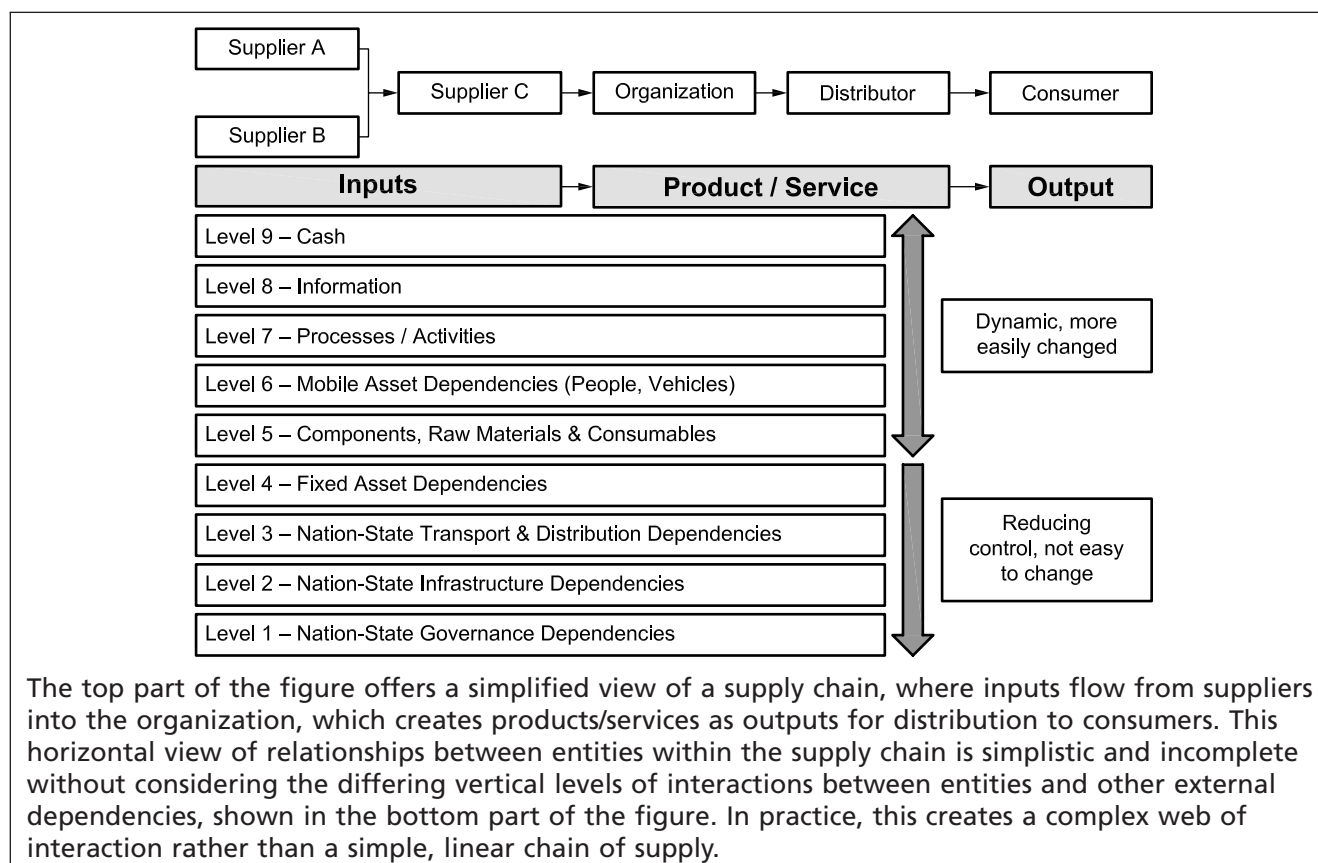
Supply chain management and business continuity management (BCM) are well-established disciplines. However, they have so far not produced appropriately detailed and pragmatic guidance for enhancing supply chain continuity management (SCCM).

SCCM needs to address the conflicting objectives of maintaining and improving supply chain cost (for example, by reducing cycle times and buffer stock) while determining, communicating and improving the supply chain risk position.

4.2 What is a supply chain?

This document adopts a broad definition of a supply chain that is not limited to the manufacturing and distribution of products, but which includes services, outsourcing and off-shoring. It is applicable to organizations of all types and sizes (see Figure 2).

Figure 2 Supply chain outcome: horizontal flow and vertical dependencies



Supply chains exist within, as well as between, organizations. A supply chain exists wherever product or service delivery depends on inputs that are not under the direct management or control of the organization. When this is the case, some form of supply management is required and supply chain continuity could be important.

A supply chain is always subject to potential disruption. In addition, a supply chain can be in a state of change.

The smallest component of a supply chain is the direct relationship between a customer and a supplier. There is a range of potential customer relationship types, including:

- a) business-to-business (some of whom may be distributors, wholesalers, etc.);
- b) business-to-consumer; and
- c) third-party served (where customers are served or supplied indirectly, for example, via subcontractors or agents).

There is also a range of potential supplier relationship types, including:

- 1) recurring product/service suppliers (providing components, raw materials, financing, property rental, essential fixed asset maintenance, etc.);
- 2) one-off or infrequent product/service suppliers (perhaps to provide a new piece of capital equipment);
- 3) outsourced or contracted out (off-site service or business process providers, such as payroll bureau, IT services, contact centre, logistics or distribution);
- 4) strategic partners (such as franchises, distributors and joint ventures); and
- 5) cooperative relationships or interdependencies between suppliers.

In addition to customers and suppliers, other stakeholders might be involved in and impacted by supply chain interruptions, including local communities (for example, from which personnel are drawn), informal community network members, trade bodies, contracted consortium partners, partial competitors or “buddies” with reciprocal arrangements, etc.

Supply chain relationships may be based on a number of factors, including:

- i) *people*: personal relationships;
- ii) *formal agreements*: contracts, work orders, service level agreements, operating level agreements, etc.;
- iii) *information*: electronic or paper; purchase orders, design specifications;
- iv) *processes*: workflow; product/service creation and delivery;
- v) *infrastructure*: transportation systems, Internet;
- vi) *culture*: business networks, trading relationships; and
- vii) *environment*: political, meteorological, economic (e.g. foreign exchange rates), etc.

NOTE These are examples only and not intended to be exhaustive.

4.3 Importance of supply chains

4.3.1 General

SCCM is important to organizations of all types and sizes, particularly as organizations seek to lower cost and enhance efficiency. Driving out inventory, time and other forms of “waste” means that goods, services, information and money are moving faster, which in turn means that the impact of an interruption to the supply chain will be felt more acutely, sooner and more often. An increasing and significant proportion of costs lie within the supply chain for many organizations, presenting both a risk and an opportunity (see Case Studies 1 and 2). Poor supply chain management can destroy value and jeopardize brand and reputation.

4.3.2 Extension of supply chains

A number of drivers have enabled and accelerated the extension of supply chains well beyond the organization’s direct control, both in terms of geographical spread and the number and type of suppliers, including:

- a) the rise and development of the Internet, its global accessibility and relatively low cost;
- b) the reduction of international trade barriers and the free movement of capital;
- c) the addition of hundreds of millions of educated and relatively low-cost skilled workers as formerly “closed” nations have opened up;
- d) a management trend for organizations to focus on core value-adding activities and outsource an increasing range of peripheral business processes, such as logistics, distribution, payroll, catering, cleaning, security and IT, making organizations more interdependent and extending impact across entities; and
- e) the emergence of resource constraints as global demand exceeds supply, so that certain supplies, including some natural resources, are only available in particular parts of the world.

Organizations are therefore increasingly interconnected and interdependent. As supply chains become more global in their reach, new vulnerabilities are created and exposure is increased, while horizon scanning (see 7.2) becomes more challenging. Furthermore, as supply chains become more integrated and lean, the more likely it is that uncertainties, dynamics and accidents affecting one link will ripple through, affecting other links in the chain. There can be an element of mutuality and a propensity for a failure in one part of the chain to impact others. Business impact analysis should uncover interdependence across a supply chain, but often does not extend up the supply chain past layer 1 (direct) suppliers (those with whom the organization has contractual relations) to those in layer 2 (direct suppliers to layer 1 suppliers) and beyond.

4.3.3 Supplier and contract lifecycle

Suppliers and contracts exist within a lifecycle of supply and service acquisition, operation and discontinuation. The point of entering into a new contract or renewing an existing contract presents the organization with some opportunity to influence future supplier behaviour, through contractual content and service levels, which might give rise to potential “moments of change” that could be exploited. Conversely, longer-term contractual commitments and high supplier switching costs can shift the balance of power between the organization and its supplier, creating resistance to changing future supplier behaviour. SCCM should take the supplier and contract lifecycle into consideration.

4.3.4 Who owns the risk?

The relationship between organization and supplier in a supply chain involves the supplier delivering its products (supplies) or services to the organization. The organization needs these supplies to deliver its own products or services to its customers. If the supplier is unable to deliver then it risks losing revenue and its customers, but this might be the limit of the supplier’s risk. The fact that the organization might be unable to deliver its products or services to its customers as a consequence is a supply chain risk that the organization itself retains. The onus is therefore on the organization to manage the supply chain risk and respond to supply chain interruptions. Customers expect the organization to take responsibility for its supply chains and are likely to hold the organization (rather than its suppliers) responsible for failure to deliver products or services. In addition, the organization might be responsible under legislation for poor delivery, even if the issue lies within the supply chain. Therefore, an organization’s brand is at risk of damage in the event of a problem in its supply chain or by the actions of a supplier.

In addition to the supplier and customer directly involved, there are many other potential stakeholders with an interest in a supply chain transaction:

- a) banks/creditors, who might be concerned that their money is at risk;
- b) investors/analysts, who might question whether the organization is a good investment;
- c) insurers, who want to understand the risk of a claim that the organization represents;
- d) employees, who depend on income from the organization;
- e) the wider community, which needs the organization’s contribution to its economy while minimizing risk to the environment and life safety;
- f) other customers, who could be let down;
- g) other suppliers, who need to be assured that the organization is a reliable source of revenue; and
- h) other suppliers, who might need assurance if interdependencies between suppliers exist.

In some extreme cases, a supply chain disruption might adversely affect an industry, market sector or the wider economy, government and public stakeholders.

4.4 Benefits of effective SCCM

Potential benefits arising from effective SCCM include:

- a) the mapping of supply chain results gives a better understanding of where and how to improve the organization's supplier management, which in turn can increase efficiency and reduce the likelihood and impact of supply chain interruptions;
- b) improved response to supply chain interruptions, including more effective collaboration with suppliers and customers;
- c) more frequent identification and mitigation of supply chain risks before they happen or before the organization is impacted;
- d) improved business-as-usual supplier management, planning, due diligence, assurance and working relationships with suppliers; and
- e) the organization can gain new customers by distinguishing itself from competitors who do not have in place effective SCCM arrangements.

4.5 Challenges to effective SCCM

Supply chain continuity management presents a number of challenges, including:

- a) scale and complexity (especially large organizations that can have many thousands of suppliers);
- b) distance and visibility of suppliers in the supply chain (geographic separation and number of links up or down the chain);
- c) existing contractual relationships might present infrequent "moments of change" when the service is open to alteration;
- d) lack of structured approach (to determine where to start, how to proceed and overcome apathy or inertia);
- e) lack of business case, top management commitment and necessary resources, including trained people;
- f) defining and embedding responsibility for SCCM across stakeholder functions within the organization, and between organizations in the supply chain;
- g) striking a balance between the expense of supply chain risk reduction that pays off over a longer time period and the short-term financial rewards of lower supply chain capital and operating costs in "business-as-usual";
- h) differences in risk tolerance/appetites between individuals, organizations and cultures;
- i) international cultural and legal differences;
- j) balance (or lack) of power in the supply chain (such as a small organization dealing with a much larger supplier with multiple customers);
- k) obtaining firm and meaningful product or service supply continuity commitments from suppliers (might a supplier divert supplies to another more important customer in times of shortage?);
- l) difficulty identifying indirect impacts: the loss of one supplier can make another critical; and
- m) difficulty understanding the full cost of disruption.