RISK FOCUS

FOOD & AGRI BULLETIN MARCH 2015

Business Continuity Management

This bulletin looks at the benefits delivered by a robust Business Continuity Management (BCM) strategy and examines some of the practicalities that food & agri companies need to address when putting their plans in place.

FAILURE TO PLAN

Within the business continuity profession there is an often quoted urban legend stating that "80% of businesses affected by a major incident close within 18 months". Whilst this is hard to prove categorically, there is no doubt that failure to plan for a response to a critical event will significantly undermine a company's ability to recover, especially in the food industry. What isn't in doubt is that those who have developed and rehearsed their response to a major incidents have a much better chance of survival should the worst happen.

Without a BCM plan, food & agri businesses that suffer a disruption have to explore their options during the crisis when it is difficult to remain objective, prioritise effectively and act efficiently. This leaves them vulnerable and more likely to suffer reputational and financial harm in the face of such an event.

During a crisis slow decision making processes, the unavailability of replacement machinery and a lack of immediate access to alternative production facilities can be very difficult to overcome.

FOCUSED PLANNING

Where a BCM plan is available, businesses can implement pre-agreed solutions immediately, enabling them to react to a disruption faster and minimise its impact. This improved speed and certainty of response creates big benefits for food & agri businesses, enabling them protect their revenues and reputations whilst retaining their customers and suppliers.

It is impossible for businesses to operate with 20:20 foresight and predict every disruption that might arise. It is however possible for them to identify the most likely and the most damaging incidents and to create a plan to mitigate their potential effects. This can seem like a daunting task, but it does not have to be.

- Do you have a particular brand or product line that your success relies upon?
- Is there a particular location that is fundamental to its ability to operate?
- Are there certain pieces of plant and machinery that are essential to maintain production output?

If so, then these pinch points are the first things that a business should focus on and this is a popular and effective strategy.

"A lot of businesses in the food and agri sector operate their BCM planning around single points of failure," says Tim Cracknell, Partner and Head of Consulting Risk Practice at JLT Specialty. "For example, they will pursue a specific piece of business continuity work that will focus on the failure of certain pieces of machinery or utilities."

This approach lets businesses understand the problems that particular disruptions would create and establish detailed plans that allow them to cope in these specific situations. This work can be done relatively quickly and Cracknell adds: "Typically a whole project would take two to four months, depending on the size of the organisation, from the analysis and organisational arrangements right through to writing the BCM plan so you are then ready to give it some type of a test. We typically follow the ISO standard for business continuity – ISO 22301 – and we make sure we cover all of the steps that it sets out. This includes risk assessment and business impact elements through to the business recovery strategy and plan preparation that you would have to implement to recover."

PRODUCT LED STRATEGIES

An important consideration for food & agri businesses is whether they widen the scope of business continuity beyond machinery breakdown and utility failure. For example would it be possible to have a key product manufactured in other premises and possibly by a third party? This is a difficult step to execute but is a reality for businesses with real 'blockbuster' products that specifically require protection.

Also, with food consumption being very sensitive, particularly for products directed towards babies, infants, those with allergies and elderly, the BCM programme must include crisis management and product recall / product withdrawal scenarios. This is an area which Cracknell sees regularly included in mock recall processes that are tested annually by many firms.

Whilst a lot of BCM planning revolves around the examination of internal processes and protocols, it is important to communicate with third parties including customers, and suppliers. It can also be advantageous to speak with competitors during the process. If a business would struggle to find alternative production facilities within its own portfolio, for example, it might be that a reciprocal agreement can be struck with a competitor.

"One of the big challenges in the food industry is the lack of spare capacity," explains Adrian Brennan, Consultant at Echelon Claims Consultants. "There are plants dedicated to producing specific product ranges and it is not often that the same facility is duplicated within the same group. I have seen a situation where there was a fire at a poultry plant in the UK and they partnered with a competitor to use the plant overnight, when it was not normally running, to enable them to keep producing." This type of arrangement can be very effective, but to switch production like this takes a lot of planning and, if possible, should be contractually agreed before disruption hits.

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It is also important to get customer approval for such a move and a supermarket may insist on vetting a new site before it will accept anything produced there. Where possible, pre-approval from customers for production at multiple sites can save large amounts of time and money, as shown by the example in the case study.

Some supermarkets will now demand that their suppliers have detailed BCM planning in place and in turn businesses must look at their own suppliers. What provision have suppliers made to prevent disruptions affecting their ability to fulfil contracts? Are they robust? Can a business switch to an alternative supplier should its existing supplier fail?

In the same way supermarkets are putting more pressure on their suppliers. This examination of BCM planning has to be pushed back up the chain to make it more resilient as a whole. "Insurers are keen to see BCM plans," says Jon Miller, Head of the Regional Food & Agri Practice at JLT Specialty. "They want to know that an insured has taken the time to think about their continuity and disaster recovery as it means the business understands its risks and is working to reduce them. Some insurers stipulate that such plans are a requirement of cover and most will offer rating discounts for well constructed plans."

BCM planning is important because it enables businesses to respond quickly, maintain operations and continue trading. It is particularly important in the current market as businesses are looking to grow and their risk profiles are changing with every new acquisition, product line or factory that they bring into their operations.

When BCM first began to get traction in the 1980s it was very much a fringe issue. Today it is at the very centre of corporate thinking and should be an integral part of a business's culture to be effective.

Our next bulletin will focus on buying the right level of business interruption insurance, as this does have a part to play, whatever the level of business continuity planning.

JLT Specialty Limited provides insurance broking, risk management and claims consulting services to large and international companies. Our success comes from focusing on sectors where we know we can make the greatest difference – using insight, intelligence and imagination to provide expert advice and robust - often unique - solutions. We build partner teams to work side-by-side with you, our network and the market to deliver responses which are carefully considered from all angles.

JLT's Food and Agri practice incorporates insurance broking professionals, risk management, supply chain and environmental consultants, plus technical claims management specialists, who have provided industry specific insurance and risk management solutions to the food and drink industry for over 20 years.

CASE STUDY

A JLT Specialty (JLT) client was growing its business through acquisition. A fire broke out at one site and there was no detailed BCM plan in place to help the business respond. Although the business managed to switch production to another site within its expanding portfolio, it took a matter of months for its main customer to approve the use of the location and this pushed up the cost of the claim, which ultimately ran to tens of millions of pounds. Following the claim JLT helped the client design a BCM strategy for its developing business. An important part of this was to get dual approval for two production sites so that if something similar occurred in the future it would be able to switch production more quickly and reduce losses. Within 24 months the business suffered another fire. But this time the BCM arrangements it had made ensured production was moved to the pre-approved location immediately and the claim was contained to additional expenses and there was no loss of revenue. This cut the size of the claim dramatically and reduced it by millions of pounds.

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