FLASH REPORT

IMPACT OF HANJIN BANKRUPTCY: WHY RETAILERS SHOULD PROACTIVELY MANAGE GLOBAL SUPPLY CHAIN RISKS

- **The effects of Hanjin Shipping's bankruptcy filing are rippling through global supply chains and pose a risk to US retailers who are currently rushing orders for Christmas and Thanksgiving.**
- **Some manufacturers have implemented contingency plans to replace urgent orders, but a temporary disruption in the supply chain is unavoidable in the near term.**
- **In this report, we highlight why it is important for retailers to have a sophisticated and diversified supply chain and explain how this helps manage risk.**

Event

Hanjin Shipping, the world's seventh largest container shipping company, filed for receivership on August 31 in Seoul Central District Court after lenders rejected its restructuring proposal. The liner industry's dire financial straits have been well known as weaker trade and overcapacity since 2008 has caused seaborne freight rates to plunge and undermined industry profitability. However, with five of the world's ten largest players being state-backed and repeatedly bailed out by their governments, the failure of liner companies has been perceived as a distant possibility, until now. In this note, we outline the near term impact of the bankruptcy of Hanjin, and give recommendations on how retailers can adapt their supply chain strategies to neutralize this risk.

Impact

Hanjin Shipping operates 3% of the world fleet, according to Alphaliner, and accounts for 7.8% of US Trans-Pacific trade volume. Because of the company's collapse, Hanjin's filing for receivership has caused its ships to be blocked from entering ports and delayed cargo delivery, posing a risk to US retailers' orders for Christmas and Thanksgiving. Hanjin's import cargoes for the US include furniture, electronics and audio-visual equipment, apparel and toys, games and sports.

Temporary disruption for supply chain is unavoidable in the near term – the delivery of merchandise for year-end holidays was delayed. Retailers are rushing to ensure their merchandise is stocked on shelves before the US Thanksgiving and Christmas holidays. Some manufacturers have implemented contingency plans such as securing services of other shipping companies and air freight to replace shipping of urgent orders that are stranded. Retailers in the US have called for measures to mitigate loss. The Retail Industry Leaders Association called on US Secretary of Commerce and Federal Maritime Commission to minimize delivery disruption.

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Recommendations

It is important for retailers to have a sophisticated and diversified supply chain in order to manage risk. Due to the increasing trend for products and services to be outsourced to different regions, lead times can be lengthened to months. As a result, supply chain vulnerability is on the rise and the inter-connections between risks are becoming stronger, according to the *World Economic Forum's Global Risks Report 2016, 11th Edition*. A PWC study showed a supply chain disruption can result in at least a 10% drop in market value, relative to a benchmark group.

We highlight some initiatives for retailers who want to strengthen their supply chains and diversify risks:

1) Align business and supply chain objectives

Retailers and manufacturers should make sure their overall supply chain is aligned with their business objectives. For example, the finance department should not encourage a reduction in inventory holding if this causes a disruption to the most profitable product.

2) Encourage transparency and information sharing

Employees within organizations and external suppliers up and down the supply chain should be encouraged to share supply chain disruption events and near misses so lessons can be learned and corrective actions can be put in place.

3) Actively monitor and seek to identify risks as early as possible

Organizations need to understand and assess the overall value that is at risk at every single point of the supply chain, in particular at choke points such as key ports or distribution centers. Organizations should also invest in processes and analytical tools to actively monitor the credit and solvency risk of suppliers and service providers.

4) Ensure joint planning to manage supply chain risk

Organizations should encourage joint planning and actions on supply chain sustainability issues. For example, the logistics and sustainability teams can work together to monitor labor practices within the supply chain.

5) Develop a contingency plan

Organizations should develop a business continuity plan that can be implemented rapidly after a disruption event. An optimal plan would encompass the relevant business lines and be frequently updated to ensure the greatest degree of flexibility.

Organizations that are conscious of the importance of supply risk management and take a holistic approach to managing these risks will fare better in the event of disruptions.

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