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## Scaling Back on Supply During Recession Could Leave Companies Stranded During Recovery

Supply disruptions can lead to 7% lower sales and 11% higher costs.

*Wednesday, September 22, 2010*

**By** . *IW Staff*

Businesses that scaled back on supply during the recession may find themselves or their suppliers suddenly unable to accommodate increased demand as the economy begins to recover.

"While reducing supply inventory during the recession may have been an economic necessity, many businesses are now faced with the risk of being unable to reestablish the supplies needed to deliver when the economy begins to turn around," said Michael Kerner, CEO for Zurich Global Corporate in North America.

Businesses waiting for an 'all-clear to resume pre-recession production and supply inventories may be missing the boat, the Insurance Information Institute advises. "There likely won't be a universal signal indicating that the economy is recovering, so businesses may not know when to adjust their models back to pre-recession levels," said Dr. Robert P. Hartwig, economist and president of the Insurance Information Institute. "Businesses often consider the costly consequences of facing a supply chain interruption, but having a supply chain that is not sufficiently prepared for increased demand can also present financial and reputational costs."

A recent study by Vinod Singhal of Georgia Tech and Yossi Sheffi of MIT indicates that companies experiencing a supply chain disruption suffered between a 33% and 40% decline in stock price, compared with industry peers over a three year period.

"Historically, disruptions can lead to 7% lower sales and 11% higher costs," cited Linda Conrad, director of strategic business risk, Zurich Global Corporate. "Combined with the increased costs of securing additional supply at the last minute, it's not surprising that approximately 40% of companies with extended interruptions never recover from supply chain disruption."

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