

Top 6 Trends Shaping Supply Chain Risk in 2023



We once hoped that supply chain issues were a temporary blip of the COVID-19 pandemic. However, three years after these issues first emerged, it's clear that disruptions to supply chain operations continue to persist well into 2023. So, where do we stand now with global supply chains? While supply chains have fortunately become a bit more stable, there is still a lot up in the air. Here's why.

1

Geopolitical conflicts and tension

We've seen how geopolitical conflicts, such as political unrest and military actions, threaten the stability of supply chains. And even small, local events that don't make the front page news can impact your supply chain. Conflicts can create disruptions in trade routes, damage critical infrastructure, restrict access to resources and markets, and result in increased tariffs. The impact for businesses? Delays, reduced product availability, and increased costs.

Examples:

- *The Russia-Ukraine war impacted global energy prices and the production of wheat and barley.*
- *In 2023, tensions between the United States and China have dominated headlines, with trade relations between the two countries significantly affecting global trade.*
- *And Brexit - 80% of UK businesses felt that Brexit was their biggest supply chain disruptor in 2022.*

Because of these geopolitical tensions, nations have become increasingly isolationist, which further fuels economic uncertainty and supply chain risks.

2

Extreme weather events

Weather events can disrupt supply chains by damaging transportation routes and storage facilities, delaying shipments and reducing inventory, and interrupting production and distribution.

Examples:

- *The droughts in China, which shut down factories in August 2022 and froze international supply chains for electronics, automobiles, and other goods.*
- *The West Coast fires, which destroyed wine country and disrupted logistics for many companies, including Amazon.*

With climate change increasing the frequency and severity of weather events, this risk is likely to persist for the foreseeable future.

3

Economic decline

In 2023, global economic decline will continue to loom over supply chains' prospects. Economic uncertainty is a risk to supply chains, as it can decrease consumer demand, impede access to credit, and reduce the overall availability of resources. In addition, suppliers may experience financial difficulties due to inflationary pressures, impacting their ability to fulfill orders and making supply chains far more expensive for businesses and consumers. A difficult economy also dampens consumer demand, which makes it difficult for businesses to adequately forecast their supply chain needs.

4

Labor shortage woes

Labor shortages continue to pose a significant risk to supply chains, especially in industries that rely heavily on manual labor, such as manufacturing, agriculture, and transportation. Because supply chains depend on people to keep products moving, a shortage of skilled and unskilled labor can cause production slowdowns or disruptions, delay shipments, and reduce efficiency. Additionally, as key industries raise wages to compete for talent, the cost is passed down from supplier to buyer, which increases input costs for companies. Challenges, such as shifting labor demographics and attitudes toward manual labor, have exacerbated labor shortages, and unfortunately these deep-seeded issues have no easy fix.

5

ESG scrutiny

We've seen a renewed focus on environmental, social, and governance (ESG) initiatives and policies, with regulatory bodies and consumers taking greater interest in the ways goods and materials are sourced. For a while, companies have acknowledged that ESG-related missteps in supply chains can obliterate reputations, result in financial penalties, lawsuits, and, in worst cases, business closures. With increasing ethical awareness by consumers and more stringent regulations, the risks are higher. For example, in 2020 the online retail giant Boohoo was accused of modern slavery because of the working conditions in one of its suppliers' factories and its share price tumbled by 18%, retailers dropped the brand, and it faced a possible U.S. import ban.

6

Cyber risk

In 2023, we expect malicious actors to be even more sophisticated when it comes to exploiting supply chain vulnerabilities. Widespread digitization of supply chains globally means that many essential services, including transportation systems, power grids, supply networks, and more are increasingly vulnerable to cyberattacks. A successful cyberattack on any of these systems can have severe consequences on supply chain resiliency, and even lead to loss of life.

These vulnerabilities often arise through supplier networks, which may grant external parties access to target systems. We've already seen countless scenarios in which vulnerabilities in software providers' products provide backdoor access to businesses' critical systems and sensitive data. Additionally, basic warehouse tools, like barcode scanners and Internet of Things (IoT) devices implemented in manufacturing and operational sites may also be used as entry points for hackers.

2023's supply chain risks remain significant, which means organizations need to take proactive steps to protect their profits and operations. Creating, mapping, and monitoring long-term plans with built-in flexibility will give you the best chance for success. Explore your insurance coverage options with a trusted insurance advisor so that you have financial protection in place should your operations and profits be negatively impacted by supply chain disruptions.

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