

## From Covid to the new normal: watch out for supply chain risk before you leap

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When most executives hear “supply chain risk,” they picture a shipping delay, a supplier default, or maybe a truckload of product lost in transit. That’s just the tip of the iceberg.

Most companies dramatically underestimate the scope, diversity, and impact of supply chain risk — not just on cost, but on revenue, margin, reputation, and even survival. And despite the lessons of COVID, we believe that few organizations have successfully implemented the governance required to respond ably to future disruptions of similar magnitude.

Risk management is often not taken seriously for two very good reasons:

- Looking forward, it’s challenging to estimate an expected value of the cost of risk; putting a cost on “unknown unknowns” seems even more futile.
- Looking back, it is difficult to put a value on the cost of avoided risks

With Covid in the rear view mirror, this is a great time to revisit the topic of risk.

## Supply chain risk is not one thing — it's an ecosystem

Supply chain risk isn't limited to late shipments or price volatility. It's an interconnected web of vulnerabilities — some obvious, some hidden — that affect upstream, downstream, and internal operations.

Consider these risks:

- **Degraded security of supply:** supply disruption with no alternative suppliers or approved substitutes; loss of exclusivity/priority; pricing shocks; reduced service levels
- **Commercial risks:** unforeseen contractual penalties; misaligned expectations; inadequate recourse, dispute resolution, or enforcement; unfair share of liability
- **Financial risk:** eroded EBITDA due to lost sales and higher costs; cash flow impact; swelling inventories on the one hand, write-offs on the other; budget uncertainty
- **Operational impact:** disrupted operations and production; higher maintenance costs, more capital tied up in safety stock or written off due to stranded inventory
- **Reputational risk:** eroded investor confidence, brand identity, customer trust, and public opinion
- **Organizational turmoil:** turnover and lower productivity due to stress on workforce and unfilled vacancies; distracted/ overwhelmed leadership
- **Existential risk:** shifting rules of play in the “new normal”; lost market segments; operations restricted by regulators due to non-compliance or policy violations
- **Floundering technology:** Soft-failed implementations (delayed, overbudget, or mis-spec'ed) of ERP or supply chain technologies; pace of technology change does not keep up with the business—or vice versa

If these sound like corner cases, they're not. They show up across industries — often simultaneously — and they rarely stay isolated.

## Real world supply chain disruption: 2020-2022

In the early 2020s, supply disruptions cascaded across industries. In my role as a management consultant, I worked with clients to address each of the following situations:

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- Manufacturer's production down due to power outages caused by storms
- Manufacturer's production down because of unplanned delay in maintenance shut
- Halted deliveries due to pallet shortages
- Tariffs that drove up prices and shook up markets to the extent that suppliers were unable to make long-term pricing or delivery commitments
- Constrained global supply due to restrictive global distribution networks and allocations
- Widespread personnel absences that forced an abrupt shift from a mostly employed work force to a hybrid workforce using contract labor providers to backfill vacancies
- Key supplier performance risk (inconsistent service, communication, deliveries, etc.)

In addition, the news featured almost daily coverage of myriad other problems:

- Vehicles stuck on assembly lines awaiting chips for onboard computers
- Demand spikes for consumer products that created congestion in trucking
- Labor shortages in ports that created backups in ports (Los Angeles and Long Beach)
- Literal (physical) supply chain bottlenecks (Suez Canal)
- Suppliers that simply went out of business.
- Supplier performance risk (poor service, poor communications)
- Cyber risk related to supplier interactions and data
- Breakdowns due to gaps in data, poor data quality, and lack of data governance

At the same time, the global balance of supply capacity vs. demand is so finely tuned that isolated disruptions freeze up the market. Prices surge, some companies stockpile inventory while other companies lock in allocations, and those companies who are slow to react are sidelined from getting what they need. I led a team to source a commodity that was globally constrained due to a force majeure outage at a manufacturing site. This resulted in a price surge and a shift of negotiation leverage from buyers to those suppliers who still had unallocated production available. In another case, a shut down at a site of a former mining client effectively switched net excess global production capacity from positive to negative.

So, supply chain risk isn't just about logistics or a few isolated supplier disruptions. The Covid era showed that companies could be faced with simultaneous unexpected crises on multiple fronts, with diverse root causes. Organizations that had spent years fine-tuning for efficiency were exposed for their fragility.

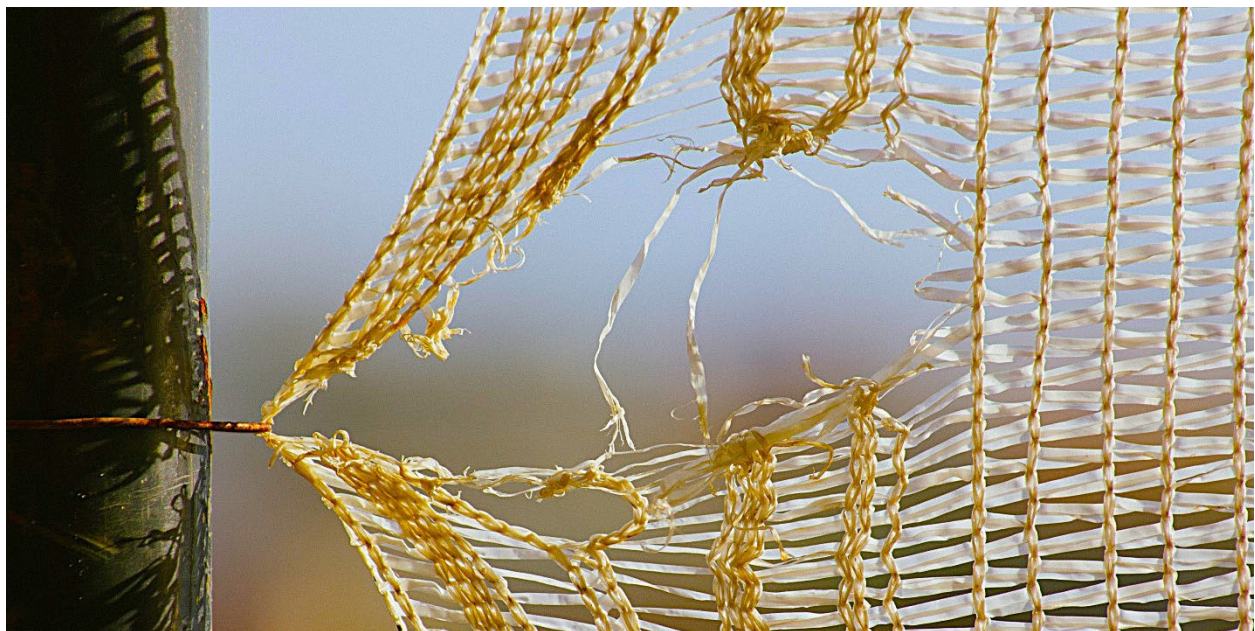
These examples highlight a general finding: Most supply chain crises aren't about a single point of failure — they're the result of compound failures or omissions in market intelligence, systems, contracts, suppliers, and governance.

## Why companies fail at supply chain risk management

My experience includes manufacturing, mining, utilities, B2B and technical services, and banking. I've observed that supply chain risk management is rarely treated with the seriousness it deserves. Companies do so at their own peril.

A few patterns stand out for me:

- **Deficient risk management framework:** insufficient insight and foresight (e.g., no risk register); no pre-assigned resources and accountabilities; no risk management governance; no business continuity plan; indecisive leadership response to risks
- **Unprepared organizational culture:** unserious or inconsistent embrace of risk management and compliance disciplines; lack of plan and practice; ponderous, ad hoc response
- **Risk management is siloed** by organizational entity (Procurement vs. Operations) or by business function (technology vs. people issues); enterprise risk is not managed holistically
- **Mindset and skills for risk management are different.** Looking into the future, planning for the unknown, and responding to the unexpected—is a different skill than nose-to-the-grindstone operations. By definition, risk events require fast and non-linear responses. The talent and mindset of risk mitigation and risk response don't come naturally to some organizations.
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Supply chain performance sometimes hangs by a thread

## The executive imperative: governance for supply chain risk

Supply chain risk doesn't just affect operations — it affects EBITDA and stock price, balance sheet health, valuation, and branding and customer relationships. Disruptions can erode margins, delay customer revenue, trigger penalties, and damage reputations. The direct and hidden costs can be staggering.

Boards and CEOs can't afford to treat supply chain risk as a procurement-only issue. It must be managed within an enterprise-level governance framework.

In future posts, I'll share practical approaches to:

- Developing a governance framework for enterprise risk management
- Creating risk registers tied to financial impact to prioritize resources
- Defining ownership for mitigation and response
- Recognizing different supply risk profiles depending on industry

I'll also look at some of the promises and risks posed by increasing reliance on AI.

While the threats are real — so are the tools to manage them. Those who get ahead of this curve won't just reduce exposure, they'll develop the agility to leapfrog their competitors.

If your organization is still treating supply chain risk as a logistics problem, now's the time to reframe. Ask yourself: What risks am I tracking? What kinds of risks may be out there that I am not tracking? Who should be doing the tracking, and who owns the responsibility for specific risks? What will happen when something goes wrong? How will it affect my company's EBITDA?

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### Authorship

Peter Benda is a general management consultant specializing in strategic sourcing and supply chain management, front line productivity improvement, governance, and diagnostics. He has worked with clients in mining, utilities, manufacturing, financial services, transportation, defense, state agencies, and technology startups. Peter has authored articles on investment risk related to the supply chain. He is on the Board of Advisors to Axtom, a SAAS solution that uses AI to automate tendering, negotiation, and contracting. Axtom's goal is to free up purchasing professionals to focus on higher-value problems like strategy and risk management. This article was generated with the help of ChatGPT.

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### Hashtags

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Supplier risk management takes on new urgency as companies struggle to find their footing between Covid and the AI new normal.

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