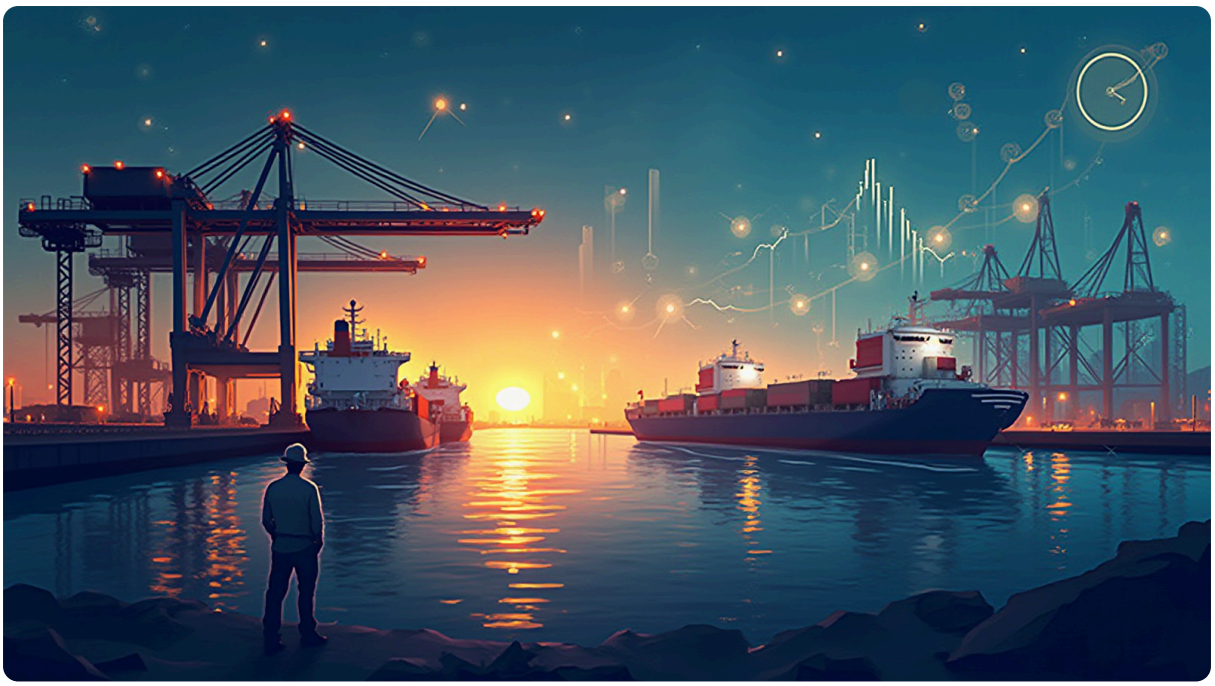
GLOBAL OPERATIONAL RISK NEWSLETTER

When Geopolitics Meets the Pipeline: How Chokepoints Break Operations

Understanding how distant conflicts translate into immediate, quantifiable risk on your balance sheet.

Supply Chain Resilience · Energy Logistics · Risk Management · Global Supply Chains

> The newsletter for logistics leaders who prefer a detailed operational diagnosis over optimistic PR statements.



The Problem Isn't the Conflict. It's the Friction Point.

When we hear about conflict in the Red Sea or tensions in the Strait of Hormuz, it’s easy to treat these as "news" items—events happening far away that affect our bottom line through some abstract sense of global instability. But for those of us running a shop floor, this isn't a news story; it is an operational friction point.

The problem isn't just the conflict itself. The problem is how much weight your current operation puts on these specific lanes without having a "Plan B" already in motion. When a primary shipping lane becomes contested, the immediate result isn't just a headline; it’s a sudden spike in lead-time variability. It is the difference between a shipment arriving on Tuesday and not knowing if it will arrive next month.

In an optimized manufacturing environment, "uncertainty" is the enemy of efficiency. We build lean systems to remove waste, but when we strip away all the "wasteful" buffer and leave ourselves with no margin for error, every external friction point becomes a direct hit to production. If your schedule

depends on a perfect flow through a single geographic gate, you haven't built an efficient system; you've built a fragile one. We need to stop looking at these events as "acts of God" and start seeing them as failures in our own logistical design—points where the process lacks the necessary resilience to handle reality.

Naming the Failure: The Single-Point Dependency Trap

We call this **The Single-Point Dependency Trap**. It happens when a company identifies a way to lower costs or improve speed by narrowing their options until only one path remains viable. In many cases, that "one path" is a specific maritime corridor or a single source for a critical component.

A lean process is not the same as a fragile process. A lean process removes waste; a fragile process lacks the ability to absorb shocks. When you rely on a single port of entry or one primary shipping lane because it was the cheapest option at the time, you are essentially gambling that the world will remain peaceful forever.

You know the drill: something happens three thousand miles away, and suddenly your procurement team is scrambling to find out why a critical component is stuck in a holding pattern. This isn't just bad luck; it's a failure of design. We have mistaken "efficiency" for "optimization." A truly optimized system accounts for reality. If a choke point—like the Bab el-Mandeb or the Strait of Hormuz—creates a crisis for your production schedule, that is not a geopolitical problem you have to endure; it is a structural weakness in your supply chain that needs to be engineered out.

Why Does Operational Risk Always Look like a 'Force Majeure'?

The reason these issues persist is that many leaders treat geopolitical risk as something outside of their control—a "force majeure" event. They believe the best way to handle it is to buy insurance or wait for the news cycle to turn in their favor. This is a mistake.

Insurance pays for the loss after it happens, but it doesn't keep your line moving today. Treating these risks as external matters allows leadership to avoid making the hard internal changes required to build a resilient system. Instead of fixing the process, they manage the fallout.

The Comfortable Rationalization	The Operational Reality
"It's a geopolitical issue out of our hands."	It is an unmanaged failure in our logistics design.
"We just need to wait for the situation to clear."	We are losing production time and safety stock every hour we wait.
"Insurance will cover the risk."	Insurance pays for the loss; it does not fix a broken schedule.

When you treat an operational vulnerability as a matter of "luck," you stop looking for ways to improve the system. You accept the mess because it's easier than re-tooling your sourcing strategy or diversifying your shipping routes now while things are still relatively stable.

What It Actually Costs: Beyond Insurance Premiums

The cost of these failures isn't just found in a line item on an insurance claim. The costs are felt on the floor, in the warehouse, and in the frantic phone calls to customers when they find out their orders are delayed.

When a maritime choke point closes or becomes high-risk, the "hidden" costs begin to compound:

1. **Rerouting Costs:** Diverting ships around conflict zones adds thousands of miles to a journey, increasing fuel consumption and delaying arrival dates by weeks.
2. **Inventory Volatility:** When lead times become unpredictable, you are forced to spike your safety stock levels just to keep the line moving. This ties up capital in "just-in-case" inventory that sits on shelves instead of being used for growth.
3. **Expedited Logistics Fees:** To make up for lost time at a port, companies often pivot to air freight or dedicated trucking—options that are significantly more expensive and harder to coordinate reliably.

These aren't just "costs"; they are the tax you pay for having no redundancy in your system. Every day of uncertainty is a drain on your ability to provide consistent quality and delivery. If your plan only works when everything goes perfectly, then your plan isn't robust; it’s lucky.

Operationalizing Resilience: Three Steps to De-Risking Critical Passages

We don't need to move our factories out of the country to solve this problem. We need to build a more disciplined operating system for how we source and move goods. Here is how you start de-risking your supply chain from these external shocks:

1. **Diversify Your Geographic Corridors.** If 90% of your critical components pass through one specific maritime choke point, that is an unacceptable risk. You must identify "Path B" options—different ports, different rail lines, or alternative suppliers in different regions—and begin testing those routes even if they are slightly more expensive than the primary option.
2. **Implement Dynamic Inventory Modeling.** Move away from static safety stock numbers based on average lead times. Your inventory levels should be tied to a "risk score" for specific transit zones. If a region's stability drops, your system should automatically trigger an increase in local buffer stocks to account for potential delays.
3. **Pre-Vet Alternative Transport Modes.** Don’t wait until a ship is stuck at sea to decide how you will get your parts by land or air. Establish standing contracts and pre-vetted logistics partners who can step in immediately if the primary mode of transport becomes unviable.

Practical Takeaways for the Next 90 Days

You don't have to overhaul your entire supply chain by Monday, but you do need to start identifying where your "single points of failure" are hiding. Here is what I want you to do in the next three months:

1. **Map Your Critical Paths:** Identify the top five components that would stop your production if they were delayed for 30 days. Trace their journey from the source to your loading dock.
2. **Audit Your "Single Points":** For those five items, identify every geographical choke point in their transit path. If a component must pass through a high-risk zone without an alternative route, mark it as a "High Risk" item on your master sheet.
3. **Recalculate Safety Stock:** Review the lead times for these High Risk items. Add a 15% buffer to your safety stock specifically for components coming from volatile regions to account for transit variability.
4. **Conduct a "What-If" Drill:** Sit down with your logistics team and pick one choke point (e.g., the Suez Canal). Walk through exactly what happens if it closes tomorrow. Who do you call? Which alternative route do you trigger? If the answer is "we'll figure it out when it happens," then you have a process gap that needs to be closed today.

Call to Action

What is your immediate contingency plan when a key transit lane closes for two weeks? Share this diagnosis with your peers at @kaizen_6sigma or newsletter@sixsigmakaizen.com.

Newsletter replies: newsletter@sixsigmakaizen.com · X: @kaizen_6sigma

Stay curious, stay improving,

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References: U.S., Iran Extend Pause in Strikes as Oman Holds Hormuz Talks (Supply Chain Brain)