

# Supply chain risk in the uncertain economy

## Strategies to manage spend and avoid costly business disruptions

In today's unpredictable economic environment, a clear understanding of an organization's supply chain operations and its inherent risk is imperative. Many organizations, while acknowledging the crucial role supply chain plays, do little or nothing to quantify the risks associated with it.

In a recent McKinsey global survey, two-thirds of respondents said risks to their supply chains have increased in the past five years. Of the total respondents, 25 per cent have no formal risk assessment, while 39 per cent feel only "slightly capable" of mitigating risk.

Yet according to Paul Michelman in a 2005 article in the *Harvard Business Review*, 80 per cent of large organizations will face a crisis every four to five years. Of those affected, 73 per cent will close or suffer a significant long-term impact, 43 per cent will never recover sufficiently to resume business, and of those who do reopen, only 29 per cent will be operating two years later. A 10-day disruption means the company has less than a 10 per cent chance of survival.



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— Joe Kelly

What can be done to mitigate risk? Best-in-class leaders assess their supply chain and develop the skills, processes, and tools to compete. They ask tough questions, including the following:

- How do we quantifiably define risk, and are we aligned and consistent in our definition?
- Are our suppliers meeting our expectations on delivery, cost, quality, scale and safety?



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- Is our spend concentration by category, geography or supplier creating unnecessary risks? Do we look at more than spend with regards to risk (such as quality, reliability, business continuity)?
- How do we reduce risk from lower-tier suppliers?
- Do we need to enhance the skills and capabilities of our supply chain staff to meet new, complex demands?
- Do other departments understand their role in supporting a best-in-class supply chain?
- Have we documented and qualified all our suppliers against requirements for various regulatory agencies?

Until an organization can answer these questions in the affirmative, the risk of failure remains strong.

- Continually monitor for early warning signs from suppliers. Frequent requests for early payment or changes in personnel, a drop in quality or shipping delays can indicate trouble.

• Increase the frequency of supplier performance reviews. According to Aberdeen Group research, of those companies doing regular reviews with suppliers, more than two-thirds conduct them on an infrequent basis—quarterly, semi-annually, or annually. You may want to step up the reviews to at least quarterly with your most mission-critical suppliers, and semi-annually with the next tier. Don't limit yourself to the top percentage by spend. The more suppliers you measure, the less likely you'll be caught off guard.

• Automate your supplier management process. The above steps may be time consuming, but well worth the effort. Simplify the process with supplier management tools that combine self-service portals for suppliers to publish and manage their own profile information; score-carding and performance measurement utilities; and project management capabilities for corrective action. These tools can improve visibility and help control risk throughout your supply base. **b2b**

Regardless of your industry, or size of organization, there are several steps that can enhance efforts which may be underway in your organization:

- Audit the financial, operational, and trade exposure of your most mission-critical suppliers. Too often, the investigation of supplier solvency is limited to the initial sourcing effort. But the health of even the seemingly most stable companies can degrade quickly.

*Andrew Schramm is a partner with Tefen USA, a global management consulting firm. Joseph Kelly is a director with Tefen. Both will be presenting on supply chain risk at the 2009 PMAC National Conference, June 3-5, in Quebec City. See [www.pmac.ca](http://www.pmac.ca) for more information.*