Supply Chain Risk Management (SCRM) is an area plagued by many misconceptions and stereotypes. Consequently, its implementation is often put off due to the perceived “lack of resources (and know-how)”. Our advice: basic supply chain risk management can be implemented with limited resources and you will give you reasonable level of protection while you work to achieve the next level.

### the stereotypes

- **The misconceptions**
  Supply Chain Risk Management is highly sophisticated, uses very complicated statistical methodologies and expensive tools to achieve transparency and prevent risks.

- **The truth**
  Yes, you can spend millions on experts, on detailed risk analyses and on ERP-systems integration with some key suppliers.

- **The other truth**
  In reality, much can be achieved using simple tools, well-defined processes and a corporate culture of common sense and vigilance.

### key success factors

- **Don’t wait till it’s too late**
  Don’t wait for the perfect circumstances to start managing supply risk. The time may never come.

- **Don’t overstretch your organisation** – focus on strategic spend categories first and then slowly increase your reach.

- **Integrate risk management into core procurement processes**, such as supplier selection, contracting and demand management, to make it sustainable.

- **Co-ordinate and communicate within your organisation** – elements of risk management are usually present on the operative level – often you just need to gather and promote the best practices.
SCRM implementations often fail because of the tendency to treat it as a one-off project. The key to success lies in making it a sustainable part of your organisation. This involves setting a development path and creating an organisation with clear responsibilities and enforcement rights, followed by integration of risk management into core purchasing processes in your company.

Risk management should become an integral part of purchasing.

**Steps in a typical SCRM implementation process**

- **Set priorities and targets for risk management**
- **Create an organisation and define processes**
- **List of key categories and focal risks, implementation timeline and project plan**
- **Resources and processes in place. Clear responsibilities.**
- **Risk audits of key suppliers, self-reports for the rest.**
- **Transparency: identify supplier risks & evaluate impact.**
- **Communication: continuous flow of information in supply chain.**
- **Supplier development: risk mitigation strategies, supplier development.**
- **Improvement measures set and monitored. Common risk mgmt. standards across the supply chain.**

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setting priorities and targets
slow and easy wins the race

staged roll-out

Work based on a long-term vision, but avoid “big-bang” roll-outs - better prepare a staged plan, where you set attainable goals and phase-in processes one by one. In this way you give your employees a chance to learn and internalise the new practices.

key questions to answer

- what resources will you have at your disposal? what can realistically be achieved with these resources?
- which processes need to be tapped into for best results?
- what results / reports are expected? how can they be generated?
- which risks should be tackled first?

what to focus on first?

- Corporate strategy as a starting point
  Is your corporation set on cost leadership, steady supply, innovation or fast expansion? What’s most likely to prevent you from achieving these objectives?
- Disruption statistics
  Gather information about typical disruptions in your organisation. Are some types more frequent than others?
- Key material groups
  Identify the risks most likely to affect your top 10 strategic material groups and focus on them first.

procurement. supply chain risk management
Sustainable supply chain risk management is based on good co-ordination and the right mix of responsibilities between the central and local risk (or procurement) organisations.

In addition, risk management cannot be perceived by the employees as an optional “add-on” but rather as an integral part of procurement processes.

Organisation: Headquarters

- **Standardisation**
  Design evaluation, mitigation and reporting methodologies, spread best practices throughout the organisation

- **Co-ordination**
  Defining responsibilities, co-ordinated emergency response, avoid rework.

- **Communication & Reporting**
  Global reports & benchmarks, central supplier blacklist.

Organisation: Subsidiaries

- **Evaluation & development**
  Performing supplier & risk evaluation (e.g. audits), supplier development

- **Monitoring the market**
  Identifying potential new supply risks.

**Key processes**

- **Supplier sourcing & selection**
  Evaluate risks at supplier selection and calculate the trade-off between lower price and increased risk.

- **Reporting**
  Spread the word about your actions: select the right target groups, contents & frequency of communication

- **Enforcing compliance**
  Design the right mix of rewards and punishments for suppliers. Ignoring non-compliance or “special exemptions” will lead to failure.

- **Escalation rules**
  Make sure you have defined clear escalation rules for both disagreements and raising “disruption alarms”.

organisation & processes
build a system that will last for years to come
increasing transparency
the higher upstream a risk is detected, the easier it is to avert

Supply chain transparency is one of the key factors of long-term SCRM success, since it allows the organisation to react more flexibly to new circumstances:

The further upstream a risk is identified or a disruption detected, the more time there is to avert it or minimise its impact.

Therefore, a steady increase of supply chain transparency should be one of the key ongoing tasks of SCRM.

our suggestions

- First concentrate on your direct suppliers to get a feeling of how good their processes are. Those with the worst track record will be prime candidates for further analysis.
- Secondly, identify your 2nd tier suppliers (name, location, size, activity profile, products) – in this way you’ll be able to quickly evaluate who can be affected by given risks or disruptions.
- Only then proceed with in-depth analyses of the suppliers (financial, operative, etc.)

transparency: depth

- Direct suppliers
- 2nd tier suppliers
- 3rd tier suppliers
- complete supply chain
- Few key suppliers
- All A/B suppliers

transparency: scope

- Location & contact details
- Financial rating
- Operative rating (OTIF, etc.)
- Supplier assessment
- Risk mapping
- Risk assessment
- Mapping logistics flows
- Integrated ERP systems
- End-to-end visibility

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transparency tip: fast risk check
simple risk checks that tell volumes about your suppliers

However sophisticated your audit checklist is, you will never be able to cover all possible sources of supply disruptions.

Your best defence is to ensure that your suppliers act as a buffer zone, i.e. that they actively evaluate their own suppliers and manage their supply risks.

There is a quick way to check how good your suppliers are at risk management. Here’s how...

1. List all key supplier risks
   Prepare a template that lists all major supplier risks (see below)

2. Ask your lead buyers to evaluate the risks of a given supplier.
   What risks do your lead buyers think likely to affect this supplier? What is the likelihood and chance? Have they seen appropriate mitigation plans?

3. Ask the supplier to self-report the risks he’s likely to face
   Ask the supplier to complete the same exercise your lead buyers performed.

4. Compare the results
   We’ve been amazed how often the lead buyers and suppliers seem to live in two different worlds! Discrepancies should be discussed in depth with the supplier.

<table>
<thead>
<tr>
<th>Risk group</th>
<th>Risk type</th>
<th>Lead-buyer Impact</th>
<th>Supplier Impact</th>
<th>Lead-buyer Chance</th>
<th>Supplier Chance</th>
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<td>Financial Risk</td>
<td>Financial stability</td>
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<tr>
<td></td>
<td>Demand instability</td>
<td></td>
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</table>

Example
Either this supplier doesn’t have a well-developed risk management organisation or the lead-buyers are not aware of some of the mitigation measures. Definitely to be checked why!
Although all risks require individual attention, classifying risks can help your organisation deal with them more efficiently and concentrate resources on more complicated cases.

It’s considered good practice to prepare basic response plans for each type of risk; they will serve as a supporting checklist for your employees.

“Thunderstrike” risks

Hard to predict risks that usually cannot be stopped once they occur. (e.g. natural disasters)

- Check for susceptibility
  Are your suppliers actually located in areas prone to natural disasters? Are they prone to legislation changes? etc.

- Check response plans and their quality
  Ask your suppliers for up-to-date and workable business continuity plans. Do you have your own plans in place?

- Quick data access in case of emergency
  How fast would you know if your indirect and 2nd tier suppliers are affected by a flood? If you’re too slow, others will contract the capacity of your alternative suppliers before you!

“Snowball” risks

Risk resulting from a chain of events that, if detected early enough, can be stopped or at least partially mitigated. (e.g. insolvency, quality issues)

- Determine the Early Warning Indicators
  e.g. Supplier performance can be a proxy for quality issues; Suppliers with few large clients are more likely to suffer from financial instability.

- Monitor and act to prevent risks
  Perform regular checks and audits. Trend changes are good indicators of problems.

- Hierarchy and weak signals
  Direct drill down reporting for managers can help identify weak risks signals that can otherwise be filtered out by lower ranks of employees.

transparency tip: choosing the right indicators
classifying risks can improve detection and response efficiency

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transparency tip: validating data
a few tricks to improve the reliability of supply risk data

Supplier and risk audits provide high quality data, but are costly – even the largest organisations rarely audit more than 200-300 suppliers per year.

Broad coverage – especially of 2nd tier suppliers – can, therefore, only stem from less reliable sources such as self-assessments.

Fortunately, there are ways to improve the validity of self-reported data.

- **Use maturity models to detect inconsistencies**
  We’ve once seen a multi-national claim that they develop their suppliers, even though they neither rate, nor audit them. How do they know what needs to be improved?

- **Peer group benchmarks**
  Group suppliers by size and industry to compare evaluation and risk results clusters. Any outliers should be investigated.

- **Ask for information, not evaluation**
  Ask for hard facts, like the distance to the nearest creek or open water, rather than whether the supplier thinks he’s at risk of flooding.

- **Quick checks**
  Periodically perform random sample audits to test the reliability of supplier-provided information.

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communication & supplier development

SCRM is about constant improvement of your suppliers

The ultimate aim of SCRM and supplier evaluation is not mere reporting, but rather the improvement of your suppliers’ capabilities, so that they can better cope with future challenges.

Developments usually take the form of continuous communication about current performance and future expectations, as well as direct assignment of improvement measures.

Supplier communication tips

- **Indicate performance**
  Give suppliers feedback on their performance and on how they measure up to their peers.
- **Discuss expectations**
  Tell your suppliers exactly what you expect from them, now and in 5 years.
- **Share risk information**
  Share information on raw material prices & availability or supply disruptions. Encourage the suppliers to do the same.
- **Reward co-operation**
  Punish underperforming suppliers, but be lenient to those who inform you about potential problems. Make rewards part of your policy (e.g. extra RfX points)

Supplier development tips

- **Create audit questions with improvement measures in mind.**
- **Identify practical and realistic improvement measures, always based on a cost-benefit analysis, never “automatic”.**
- **Divide issues into “must” and “nice-to-have” to establish development priorities.**
- **Audits should always have consequences.**
- **Invite your suppliers for risk-management training sessions. Create guidelines for standard risk management processes and share them with the suppliers.**
- **Encourage the suppliers to develop their own supply base in the same fashion you developed them.**
Procurence is a start-up established by an international group of experts with purchasing and supply risk management backgrounds.

With its Meercat product line, Procurence offers professional web-based solutions for supply risk management and supplier auditing across multiple layers of the supply chain.

- **Meercat** is based on years of hands-on experience in designing and implementing partner evaluation processes for large international corporations.
- Meercat covers the complete supply chain: retail points and franchisees, distributors and both direct and indirect suppliers – all of them can be audited in the system.
- Meercat supports assessment and risk management process and it has been specifically designed to meet the needs of medium and large enterprises.
- Evaluation criteria and risk list: We provide our clients with a structured, ready to use list of 200+ evaluation questions to kick-start the process.

**Supplier Assessment features**
- Sophisticated audit planning & monitoring
- Supplier Audits and self-assessments
- Supplier self-registration
- Development measures
- Supplier database
- Document and contract database
- Optional ERP integration

**Risk Navigator features**
- Definable risk tree and risk scores.
- Supplier risk mapping, risk evaluation and risk self-reports.
- Risk response measures (ERAS/ACAT) with follow-up and evidence.
- Risk matrix (supply-chain & supplier level)
meercat. web-based software
supply chain risk management
supply chain assessment

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