



# supply chain risk management practical implementation guide



# implementing supply chain risk management

## don't wait until it's too late

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.



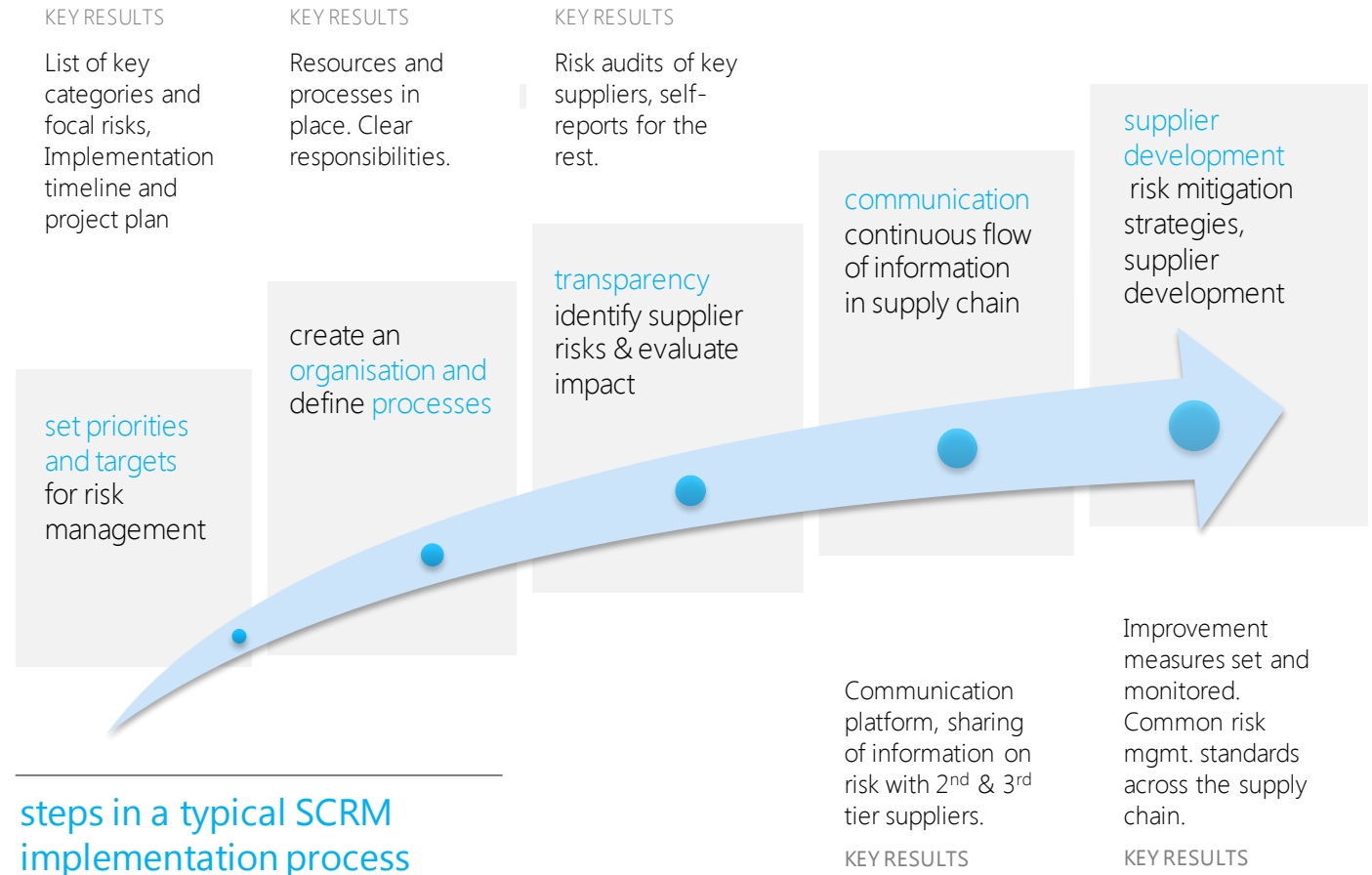
# scrm implementation process

## risk management should become an integral part of purchasing



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.



# setting priorities and targets

## slow and easy wins the race



### staged roll-out

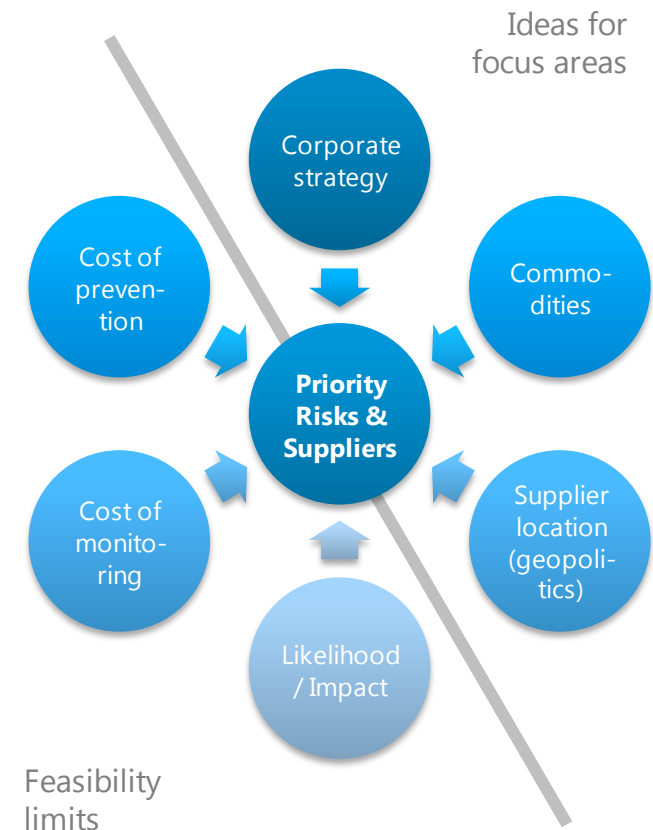
Work based on a long-term vision, but avoid “big-bang” roll-outs - better prepare a staged plan, where you **set attainable goals and phase-in processes one by one**. In this way you give your employees a chance to learn and internalise the new practices.

### 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.



# organisation & processes

## build a system that will last for years to come



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”.



increasing transparency

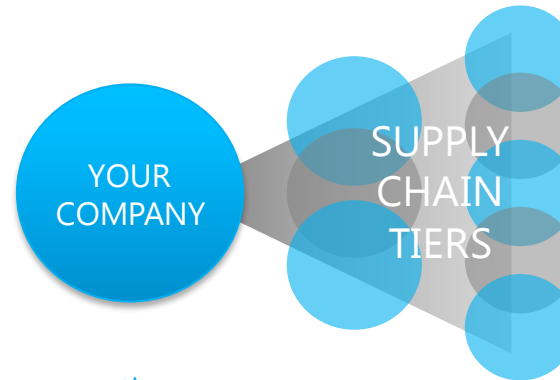
the higher upstream a risk is detected, the easier it is to avert



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 2<sup>nd</sup> 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
- 2<sup>nd</sup> tier suppliers
- 3<sup>rd</sup> 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





# 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 ...

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

Risk group	Risk type	Lead-buyer		Supplier		Example
		Impact	Chance	Impact	Chance	
■ Strategic Risk	Competitive advantage	2	3	-	-	<i>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!</i>
	Sourcing dependence	-	-	-	-	
	Innovation risks	2	2	-	-	
	Reputation risks	3	1	-	-	
■ Financial Risk	Financial stability	1	3	1	1	
	Currency exchange	1	1	1	3	
	Raw materials	2	2	1	2	
	Demand instability					



# transparency tip: choosing the right indicators

## classifying risks can improve detection and response efficiency



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 2<sup>nd</sup> 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 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: 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 2<sup>nd</sup> 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



# 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 takes 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.



about procurement

## supply chain assessment & risk management software

### *procurement*

Procurement is a start-up established by an international group of experts with purchasing and supply risk management backgrounds.

With its Meercat product line, Procurement 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)



procurement. supply chain risk management

meercat. web-based software  
supply chain risk management  
supply chain assessment



procurement sp. z o.o.  
ul. dereniowa 2/6  
02-776 warsaw, poland

tel. +48 22 219 5400  
info@procurement.com  
www.procurement.com