Supplier Risk Management
- Predictive vs Responsive Modeling -

Agenda

- Supplier Risk Management Overview and Importance
- Intersection between Supplier Risk Management and the overall Enterprise Risk
- Challenges to management Supplier Risk
- Best Practices/Benefits of a successful Supplier Risk Management Program

Definition – Supplier Risk Management

Supplier Risk Management (SRM) is defined as the implementation of strategies to manage both everyday and exceptional risks along the supply chain based on continuous risk assessment with the objectives of reducing vulnerability and ensuring continuity.


- Supplier Risk Management is no longer an option, it's a requirement for doing business
- This imperative drives many companies to focus on supplier risk management as an integrated part of their core strategy of conducting business
- SRM Programs can vary widely in sophistication and complexity, with best in class programs applying predictive measures versus responsive ones
Background

- Supplier Risk Management as a discipline enables companies to evaluate their relationships with suppliers, and manage them based on the importance of each relationship and the associated potential for harm or good.
- Drivers prompting companies to develop formal supplier risk management programs include:
  - supplier failures due to the economic crisis
  - natural disasters
  - globalization
  - increased outsourcing
  - heightened regulatory concern
- The safety and soundness of a company is becoming increasingly contingent upon its ability to effectively select and manage its suppliers, and a key emphasis in regulated environments.

Supplier Risks Impact Enterprise Risks

- Monitor the potential for loss related to a given industry, country, etc.
- Negative publicity regarding a company’s business practice could impact the institutions revenue and valuation.
- The risk associated with an organization’s future business plans and strategies which typically involves utilizing third parties.

Supply Chain Compliance Risk

- As companies respond to Compliance requirements across the supply chain they will continue to be exposed to compliance risk.
- Select Supply Chain Compliance requirements:
  - Dodd-Frank Act, Section 1502 (Conflict Minerals Provision)
  - California Supply Chain Transparency Act
  - Lacey Act
  - Executive Order of Supply Chain Transparency
  - REACH (Registration, Evaluation and Authorization of Chemical Substances)
  - RoHS (Restriction of the Use of Certain Hazardous Substances in Electronics and Electrical Equipment)

- Developing capabilities to monitor, measure performance and reduce risk is critical for companies today.
- Supply Chain organizations have now started hiring individuals to be responsible for all Supply Chain Regulations.
Challenges to Managing Supplier Risk

- Companies take a decentralized approach to managing risk
- Suppliers know more about us than we do
- Information leakage
- Poor transparency into the chain of custody
- Lack of integrity in supplier related data
- Inadequate processes, untimely information capture
- Insufficient performance measures
- Unmanaged service levels
- We give away leverage
- We select suppliers...then negotiate
- Organizations do not have the budget to dedicate resources

Best Practices - Risk Management Predictive Model

1. View risk management as a process, not as a single event.
2. Develop an information strategy that places an emphasis on risk management.
3. Implement tools and technology to measure, monitor and mitigate risk by using a repeatable and scalable process.
4. Incorporate risk mitigation and dependency evaluation into your sourcing strategy and qualification process.
5. Monitor your most critical suppliers regularly.
6. Monitor the overall market and/or industry not just the supplier that you are doing business with at that time.

Best Practices – Risk Management Predictive Process

Best-in-class organizations integrate supplier risk management throughout the lifecycle of a supplier relationship

1. Integrate risk mitigation strategies into your core sourcing processes
   - Ask the “hard” questions within the RFQ/RFP process
   - Verify supplier information against a 3rd party information provider
   - Utilize a Supplier Portal where supplier manages critical information
   - Utilize your network to get prospective supplier referrals vs. selecting suppliers – especially applicable where there is a larger risk
2. Identify the suppliers that have the most impact on your business.
   - Segment/stratify your supplier population into risk matrix relative to criticality criteria
   - Apply risk categories (Financial, Political, Legal, etc.) to segmentation results, and apply scoring to normalize risk measurements
   - Determine a process as to how/who/when will monitor key suppliers
   - Assign executive ownership to all key relationships
Best Practices – Risk Management Predictive Process
(Cont’d)

3. Continual evaluation of your Suppliers’ Operational Performance
   • Develop a “Dashboard” approach to assessing the overall global landscape.
   • Develop consistent tracking mechanism aligned to segmentation model
   • Leverage existing Supplier Quality Report Cards
   • Measure Customer Satisfaction
   • Supplier Audits

4. Communicate with suppliers based on risk and criticality
   • Routine calls/meetings should be conducted with key suppliers to remain informed on their activities, and their market/industry
   • Executive Management should meet with leaders from key suppliers company at a minimum of 1x per year

5. Develop disaster recovery/business continuity plan and exit strategies
   • Alternative source strategies should be in place for critical suppliers
   • Documented plans and resources should exist relating to potential exit strategies.

Benefits of a Successful Supplier Risk Management Program

A successful Supplier Risk Management program that focuses on good supplier information management drives many significant benefits for an organization:

• Creates a competitive edge
• Taking supplier relationships to the next level
• Keeps you ahead of the regulatory curve
• Leverage risk to create more effective contract terms
• Normalized and enriched vendor details
• Real-time validation and assurance of vendor information quality through data governance
• Visibility to suppliers across the enterprise, weighted for risk
• Higher contract compliance and vendor base rationalization
• Better supplier performance tracking and reporting
• Proactive monitoring, and improved supplier compliance as per regulatory guidelines

Summary

☐ Build an integrated enterprise risk approach
☐ Conduct early and ongoing due diligence with your vendor relationships
☐ Constant communication of policy both internally and externally is paramount
☐ Build risk into all of your processes and not look at it as a single event
☐ Utilize “dashboard” technology to monitor global landscape
☐ Build sound relationships with your core suppliers so that you have a pulse on what is going on.
Thank-you for your time today!

Brian Krisburg
Supply Chain Tri-State Practice Lead
brian.krisburg@resourcesglobal.com
973.401.2565