



Supply Chain Risks

Understanding risks and how to manage and minimize

Supply chain risk can formally be defined as the potential loss resulting from a variation in an expected supply chain outcome. It is the mismatch between supply and demand. Supply chain managers must deal with many difficult and often perplexing issues. External events – such as, natural disasters, strikes or the threat of terrorism can slow or stop operations. The bottom line is – supply chain managers must plan for supply chain disruptions, and have to be front and center when they happen.

Traditionally, supply chain risk was often the result of inadequate spend visibility, lack of deep supplier and market information, poor inventory management, poor supplier collaboration, and inefficient coordination heightened by a lack of infrastructure, skills, resources, research, and technology as well as language and cultural barriers.

Today, matters are much worse. With today's focus on efficiency, lean "just in time" inventories, outsourcing, supply base reduction, centralized distribution, more and faster product launches, low cost country sourcing and supply chain globalization in a highly volatile global market place, companies are at greater risk than ever before. When one considers that 10% of active suppliers represent 80% of spend in many of today's enterprises, and that many companies lack visibility into their supply chains beyond their tier one suppliers, supply risk management is becoming key to ensuring continued operations in a profitable manner.

A supply chain disruption goes beyond just late shipments, lost production time, and delayed execution times. It can cause stock outs and lost sales, missed customer expectations, quality and safety concerns, project failure, market exposure, and lost credibility. It can increase costs, reduce bargaining power, and even influence poor supplier selection as the organization struggles to correct the imbalance. It can even devastate a company's stock price.

Managing and minimizing "supply chain risks" provides a major competitive advantage to companies. There are five types of supply chain risks:

- Environmental
- Economic
- Societal
- Technological
- Security-related

Assess and plan for supply chain vulnerabilities and practice strict due diligence.

- To better understand your supply chain, learn all you can about every supplier.
- Assign someone to manage risk; investigate all contractors and subcontractors; and monitor and measure inventory.
- Identify supply chain vulnerabilities and prepare for them.
- Evaluate all risks so you can make accurate inventory decisions.
- Investigate all contractors and subcontractors.
- Monitor and measure inventory at all times.
- Initiate encompassing risk-awareness standards that are international in scope.
- Audit your supply chain for dangerous overdependence on a single vendor.

Supplier Audits

One of the best ways to start a new risk management initiative is with a comprehensive supply chain risk audit, especially when Aberdeen's Global Supply Chain Benchmark Report found that only 11% of companies are actively managing risk, even though a single disruption could easily cost six, seven, and even eight figures to recover from. A good supply chain audit will identify where an organization's supply chain may be vulnerable, the strengths and weaknesses of the supply chain, where response programs are weak, and where safeguards or alternative sources are missing.

A supply chain vulnerability audit is a three-step holistic process that encompasses the entire supply chain, starting with a company's customers and the products they purchase, then working backward to the up-most tier of raw material suppliers. The result is a plan for resiliency in the form of the right facilities, the right suppliers, the right logistics plans, and the right amount of flexibility.

Robust Supply Chain Design

Designing a robust supply chain and a resilient supply base is a straight-forward seven-step process that starts with defining risks and ends with the definition of mitigation and forward-looking monitoring activities. Specifically:

- Assess Risk Probabilities and Risk Impacts
- Select the top high-probability, high-impact risks
- Identify Risk Mitigation Strategies
- Maintain executive level visibility into exposure and dependency
- Implement the strategies
- Monitor the supply chain
- Maintain complete, accurate, and forward looking supplier information

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