

## **IDENTIFYING, MITIGATING AND MANAGING SUPPLIER RISK**

### **Are you managing supply risk effectively? What are the key elements you need to consider?**

There are many types of risks facing your organisation, from disruption to supply of materials due to commodity shortages, price volatility or credit facilities to quality issues in your supply chain effecting your end product or service. However one of the greatest risks in these difficult economic times is the risk of supplier failure and the resulting impact it can have on your business. The question you need to be asking yourself is what steps can I take to deal with this inherent risk?

#### **1. Identify Suppliers "At Risk"**

The first step is to identify suppliers at risk of business failure. This can be achieved through:

- Financial profiling of suppliers
- Supplier self-profiling
- Category trend analysis

##### **Financial profiling of suppliers:**

There are a number of ways to profile supplier finances. Companies such as Dun and Bradstreet (D&B) or Standard & Poor's (S&P) provide comprehensive financial information which can be matched against your suppliers to give you a risk profile of how they are positioned to handle the current economic environment. This can be either undertaken as an internal project to enrich your existing information or you can contract it out as part of a data cleansing project to experts in this area. The key factor is to develop a programme to ensure the data is kept up to date because as the data becomes out-dated it becomes significantly less effective as a lead indicator of risk.

##### **Supplier self-profiling:**

There is certain information which suppliers can provide directly to you, such as who your supplier's key customers are, what percentage of their turnover is associated with those customers and the relative exposure of loss of that business to your supplier's business success. A web-based solution which allows the suppliers self-administer their defined data is a key enabler for data enrichment and risk management purposes.

##### **Category trend analysis:**

The market for the raw materials your suppliers use in manufacturing the product or service which you rely on can provide valuable insights into supply risk. Through analysis of commodity trends and the likely impact on the suppliers due to price fluctuations, it is feasible to get a picture of possible market supply constraints and to add to the risk profile of that supplier.

## **2. Programmes to mitigate risk**

This will include systematically undertaking risk profiling across particular categories of supply and within specific segments of suppliers. For this to be successful the accuracy and timeliness of supplier-related information is key.

A Supplier Information Management (SIM) solution is a key element to facilitating this ongoing programme of risk management.

### **Strategy to mitigate risk in a supply category**

A balance is required between the savings achieved by leveraging spend with one supplier and the risk associated with having a single supplier provide a key component in your supply chain. If the risk to your business is too great to have 100% of a category spend with one supplier then this needs to be split to mitigate this risk. A 70:30 approach is common to ensure continuity of supply from a secondary supplier if anything should affect the primary supplier's ability to meet the required level.

### **The time to act is now!**

Given the current economic environment, the time to act is now. Risk is inherent with all organisations and the success of your organisation could be determined by the risk management plans and programmes you have in place. By having better visibility of spend, a supplier's financial soundness and strategic category management you are on the road to mitigating these risks.

**For more information on minimising supply risk across your organisation,  
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