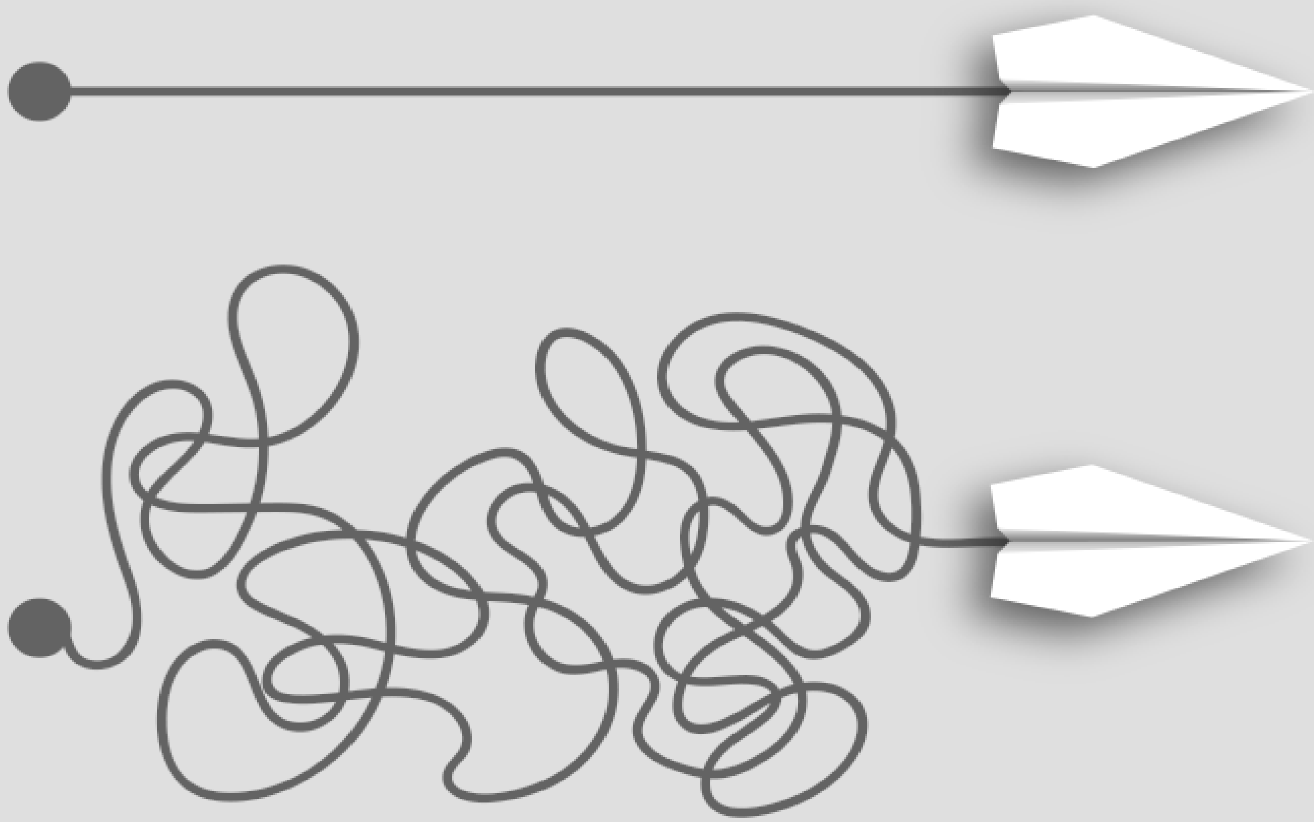
WHITE PAPER

IS IT NOT TIME YOU GET DIRECT WITH YOUR SUPPLIER RISK MANAGEMENT?



Sourcing Innovation
Next Generation Supply Management Defined

synertrade | econocom

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INTRODUCTION

Our last paper asked, is it not time you go direct because, truth be told, even if a significant amount of your sourcing is indirect, a direct sourcing platform is still the right way to go.

Why?

Primarily for the reasons we gave in our last paper, which, quickly recapped:

- Direct platforms expose the cost drivers;
- Direct platforms allow you to model market event impacts;
- Direct platforms allow you to track a product to its source;
- Direct platforms allow you to holistically understand who you should, or should not, source from; and
- Direct platforms allow you to identify suppliers who affect your risk profile

In this paper, we want to focus in on this last point in detail as it's the easiest overlooked and one of the most important points in many industries. Every other day we read about another supply chain disruption and seemingly every other day we read about a disaster which knocks out multiple supply chains. While many of these are natural disasters like hurricanes, earthquakes, forest fires, and so on, some of these are man-made disasters -- and, even worse, the number of these man-made disasters are increasing.

Moreover, at the end of the day, each man-made disaster is, ultimately, the responsibility of some company in someone's supply chain. And, if you're not careful, the next man-made disaster will be in your supply chain.

Moreover, even if you're careful enough to make sure that your supply chain is free of disasters, are you careful enough to make sure your supply chain is free of supplier-caused disruptions? Remembering that even a small disruption that delays a critical component for 3 days can shut down a production line for 4 days and cost the organization millions of dollars, it is critical to prevent any disruption. But this is not the easiest thing to do, especially when many types of disruption are almost impossible to predict with an indirect sourcing platform or stand-alone supplier management solution.

Why?

DISRUPTIONS HAVE MANY CAUSES

Even though every disruption looks the same from a buying organization's point of view since it's always the result of a useable product not showing up on time (and then possibly not at all), it's always different from a supplier's point of view.

For example, the following eight situations all result in a disruption to the buyer:

- the carrier doesn't pick up or deliver the shipment from the supplier on time
- the raw material received by the supplier doesn't meet specifications (and cannot be used)
- a raw material doesn't show up to the supplier on time
- the supplier's production line breaks down
- the supplier is a week late on production because it doesn't have workforce capacity
- the supplier's financial struggles prevent timely deliveries as its suppliers are only accepting C.O.D.
- quality checks are not adequately performed by the supplier and the shipment has to be refused by the buyer
- the shipment is only half the size it's supposed to be (and all it did was delay a buyer's production line shutdown due to lead time requirements)

And, most importantly, all of these situations could have been prevented with good visibility into your supplier and it's supply chain, a visibility that cannot be obtained with a typical indirect sourcing platform and a supplier management solution centered around information management and interaction.

However, the right direct sourcing platform can enable insight into all of these situations, at least indirectly, and often allow actions to be taken in time to prevent, or at least mitigate, the disruption. How?

Let's take the situations one-by-one.

The carrier doesn't pick up or deliver the shipment from the supplier on time

If your organization is using a direct sourcing platform, it either monitors, or integrates with an inventory management system with either vendor management inventory support or ASN where a vendor can communicate when something is shipped or when a carrier doesn't show up. This allows the buyer's system to automatically send an alert when anything marked critical doesn't ship on time. In turn, the buyer can begin an investigation immediately, not four weeks later when the product does not arrive on time.

The raw material received by the supplier doesn't meet specifications

If your organization is using a direct sourcing platform, it can be tied into the supplier's quality monitoring platform and the buyer can be immediately alerted if a raw material it has to track as part of its supply chain visibility initiatives didn't make the quality testing cut (and had to be rejected or diverted for other uses).

The raw material doesn't show up to the supplier on time

Similarly, if the buyer's direct sourcing platform is tied into the supplier's quality management system and programmed to expect the results of a quality test by a certain date, the buyer can be alerted that the test wasn't complete. A simple e-mail can determine whether the supplier is behind on testing or didn't even receive the shipment for testing.

The supplier is a week late on production because it doesn't have workforce capacity

This is a bit trickier to detect. If the raw materials come in, pass the quality tests, and the buyer is alerted all is okay, everything can look fine up until the shipment date is missed. The only shot an organization has at detecting this situation before the ASN is expected is if the organization insists upon production schedules and the results of internal milestones and can detect if supplier doesn't send an internal milestone report or the results of a quality check on the first production run on time. Then the buyer can investigate and possibly realize that the supplier doesn't have the manpower it needs.

The supplier's production line breaks down

This is also a bit trickier to detect if the supplier tries to keep it silent in hopes it can repair the production line before you notice. Generally speaking, unless it's tapped into community intelligence and gets alerts that the supplier is missing multiple deliveries, it may not detect the situation until the ASN doesn't show up on time -- but that's still better than three to four weeks later when the shipment doesn't arrive at all. And, as per our last example, if it insists on finished goods quality tests after the first production run, and those results don't show up on time, then it has even earlier visibility that there is a problem to be investigated.

The supplier's financial struggles prevent timely deliveries as its suppliers are only accepting C.O.D.

This is even trickier, and the only way this is going to be detected is if the system also integrates with third party risk feeds that monitor financial status and credit ratings and the buying organization asks the right question to the supplier and other parties in the supply chain. However, without a direct platform with early insight into late quality checks and/or deliveries and deep integration into a financial risk monitoring application, the organization has essentially zero chance of figuring this out. At least with a direct platform, it has a chance.

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Quality checks are not adequately performed by the supplier and the shipment has to be refused by the buyer

There can be two issues here. In the first situation, the supplier accurately documents what it did during the quality checks and careful inspection by a quality specialist can realize the checks are not sufficient and the buyer can force a recheck. In the second situation, the supplier inaccurately documents what it did by copying a previous report that was accepted and simply changes a few numbers within tolerance.

In this latter situation, the only chance the organization has is if the platform has document analysis capability and can detect that a document is too close to a prior document and/or violates an expected trend and alert a buyer to take a closer look. The closer look might not be enough to reveal this situation, but this is another situation where the organization has essentially zero chance of ever detecting its occurrence without a direct sourcing platform.

The shipment is only half the size it's supposed to be (and all it did was delay a buyer's production line shutdown due to lead time requirements)

This is actually the worst situation of all, because it's only detectable pre-delivery if the supplier files all of the e-paperwork on-time and accurately. If an ASN shows up with half of the required shipment, the shipment can be stopped in its tracks before it leaves the supplier until the quantity is corrected. Otherwise, if the supplier only loads half of the product (whether by accident or on purpose due to shortages), there's no catching it until it's too late. But at least with a direct platform you'll catch this situation some of the time.

DIRECT PLATFORMS HAVE MANY SUPPLIER RISK MITIGATION SOLUTIONS

We covered many of these risk mitigation solutions in our last section which included not only the basic mitigation solutions that could be found in all leading sourcing platforms

- Community Intelligence
- Financial Monitoring Integration
- (Semantic/AI) Document Analysis

but the specific mitigation solutions that are only found in leading direct sourcing platforms

- Supply Chain e-Document Support, including ASN
- Quality Management, including integration with supplier protocols
- Vendor Managed Inventory
- TMS Integration and Shipment Tracking

In addition, direct sourcing platforms generally contain the following unique mitigation capabilities

- Total cost modeling and market price tracking
- Deep integration with supply chain risk modeling applications
- Ability to model event impacts on categories

And in addition to the disruptions discussed in the last section, these unique capabilities found in direct sourcing platforms allow for the following disruptions to be detected and prevented before they happen:

Rapid Raw Material Cost Increases that Put the Supplier in Financial Jeopardy

With a direct sourcing platform's deep bill of material support, it's easy for a buyer to see when the total cost per unit of a product nears, or exceeds, the amount that the buyer is paying and puts the supplier at financial risk. The buyer can see when they need to pay more or change the terms of the deals to make sure the supplier stays solvent and they don't suffer easily preventable disruptions.

Border Closings or Political Unrest that Impacts Supply Chains

With the ability to integrate with deep supply chain modeling platforms, and associate bill of material components down to the source, a direct sourcing platform can instantly identify the breadth of impact of a border closing or similar situation across all of its categories and give a buyer an immediate heads up when she might need to source from a different supplier location or find a different source of supply altogether to prevent a disruption. It can also, using the cost modeling, calculate the total cost of the buys that will be impacted over the next week, month, and year and some simple margin calculations can be used to yield the total revenue impact. Can your indirect sourcing platform do that?

Mine Collapses or Wildfires that Wipe Out Sizable Amounts of Global Supply

With a direct platform's ability to deeply integrate both deep supply chain modeling and track components to the source augmented with market price tracking platforms, the direct sourcing platform can be used to both estimate availability of substitute materials and potential costs.

This is invaluable when an organization identifies that its supplier's primary source of a raw materials required for key buyer categories is now unavailable as the organization can search its deep direct material databases to identify where the most likely backup sources are, and, based on historical data and trend fitting algorithms, what the prices are likely to be. If the natural disaster significantly affected global supply, the buyer can move to lock up supply quickly on its supplier's behalf or, if that would prove too expensive, explore alternate designs or substitute materials until the shortage is abated. And it can do so months before the product fails to materialize at its door.

ONLY DIRECT PLATFORMS SUBSTANTIALLY REDUCE SUPPLIER RISK

At the end of the day, the biggest supply chain risks revolve around suppliers, and the best disruption planning that an organization can do revolves around supply risk mitigation.

If you look at the major categories of risk covered in the annual World Economic Forum Global Risks Report -- Societal, Environmental, Geopolitical, Economic, and Technological -- and dive in, about the only risks that are really within your organization's control are those in your supply base. Unless your organization is a Fortune 100, it can't influence economies, take new technology to global scales overnight, influence politics, and so on.

But your organization can monitor its supply base, help its supply base avoid risk, and help its supply base gauge the impact of an economic, societal, geopolitical, or technological shift before disaster strikes. And when disasters strike, your organization can take immediate action based on mitigation plans it has already developed.

The only way your organization can do the proper monitoring and impact assessments are with a direct platform with deep monitoring and impact modeling capabilities. That's why, at the end of the day, only direct platforms can be used to substantially reduce supplier risk across the supply chain.

We're not knocking the value of integrated risk management feeds or best-of-breed supplier relationship management (SRM) systems, as they do greatly reduce certain types of risk (especially when integrated with a direct sourcing platform), but when you look across the board, as we did in this paper, there are many categories of risk these standalone best-of-breed SRM systems cannot address (on their own) -- and these are the risks that often cause the biggest unforeseen disruptions. So, if you're really concerned about reducing your supply risk, go direct. The best direct platforms integrate with all of the market feeds, provide an API to integrate with the best stand-alone SRM systems, and can consolidate all of the data available to give you the most complete picture possible. And that's how you reduce supplier risk.

This white paper has been written by experts of Digital Procurement.
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