

# Risky Business

## How to Protect Your Supply Chain

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In today's volatile environment, companies have never been more vulnerable given the increased risks to their supply chain. In response, more and more companies are looking to implement or augment their risk management strategies.

The growing awareness and importance of supply chain risk management can be attributed to several business trends:

- leaner supply chains – less inventory, saving money and avoiding liability, but when events happen, there is no buffer to recover
- global sourcing – limited visibility, difficult communication, lead times stretched
- higher customer expectations – consumers want instant gratification, supply chain slow downs result in lost customers

- complexity and interdependency of supply base – networks of contract manufacturers with materials flowing in all directions
- variability of demand, shorter product life cycles
- increasing commodity costs and tighter logistics capacity – harder and more expensive to ship goods

These trends have been further exacerbated by major events over the past several years – from increased regulation, to natural disasters, to the volatile economy – that have only magnified the risk of supply chain disruption.

Regardless of how well planned or well managed a company's operations are, enterprises face external factors beyond their control that can easily disrupt the supply chain.

Companies with the most effective risk management strategies address both anticipated and unanticipated supply chain disruptions; they are able to assess the impact, evaluate the action alternatives, and most importantly, implement the most effective response as quickly as possible.

### ***The Two Sides of Supply Chain Risk Management:***

There are two components to supply chain risk management:

- Proactive risk assessment and mitigation
- Response to unanticipated supply chain disruptions

Both are necessary components of an effective supply chain risk management strategy. With strong risk mitigation strategies in place, a company is ready to handle a variety of supply chain events. And when unanticipated events occur, a company must be prepared to respond quickly and effectively or risk suffering financial and customer service losses.

### ***A Deeper Look at Assessment and Mitigation:***

There are three key phases to proactively managing supply chain risk:

- **Visualize and understand risks that apply to the supply chain.** General categories of risk include natural disasters, flu/pandemic, economic risks, political risks, transportation and unstable demand and/or supply. As one example, if your supplier is located in a region known for significant seismic activity, do you have an alternate source for that supplier should a serious earthquake strike?

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- **Measure and prioritize the risks according to the likelihood of occurrence and the business impact.** The mitigation required for a risk will be dependent upon the assessment of how likely it is that the risk will occur and what the impact to the business would be. A risk that is very likely to occur but has little business impact might have a low mitigation priority; same too for a risk that has a large impact but has very little chance of happening. However, for a risk with a high chance of occurring and a significant business impact, a company will have a high priority for addressing this risk.

The drivers of risk (political landscape, consumer behavior, economy) continue to change so risks should be reviewed regularly to ensure that new and changing factors are continuously being considered.

- **Decide which risks need to be addressed and develop mitigation strategies.** Based on the priority, mitigation strategies need to be developed for the risks identified. Mitigation strategies could include developing alternate sources, establishing alter-

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nate transportation routes and product redesign to leverage more easily accessible items.

Mitigation strategies should be modeled and tested to ensure they are reasonable strategies. If the strategy does not yield acceptable results, different strategies must be developed and considered.

### **Response and Implementation:**

Responding to supply chain events can take two forms:

- Responding to an anticipated supply disruption by implementing the mitigation strategy
- Responding to an unanticipated supply disruption

In either case, an effective and instantaneous response is critical and can mean the difference between an insignificant blip and a full-scale crisis. Technology plays a key role in this process.

A successful supply chain risk management tool should incorporate the following capabilities:

**Visibility into the entire supply chain** – The tool must integrate with multiple disparate ERP systems, including systems supporting the supply and distribution nodes.

**Event detection and alerting** – The supply chain should be constantly monitored and an alert triggered

when a disruption has occurred to initiate the implementation process of risk management strategies.

**Analytics** – The full suite of supply chain analytics needs to be modeled in the tool to ensure the impact of a potential supply chain event is understood. These analytics need to be performed in real-time when responding to an unanticipated supply chain disruption.

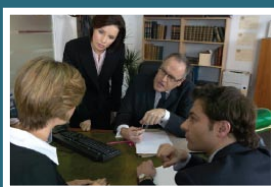
**Simulation** – Simulation can be used to model different risk scenarios, propose mitigation strategies, and compare the effectiveness of various response alternatives.

**Collaboration** – Evaluate as a team, several possible mitigation alternatives to ensure that the response alternatives are reasonable and align with corporate objectives.

### **Conclusion:**

An effective supply chain risk management strategy addresses both risk assessment and mitigation, as well as event response.

If companies implement this approach, with a specific emphasis on increased visibility and collaboration across their supply chain, they will be more prepared and better equipped to recover quickly from anticipated and even more importantly, any unanticipated supply chain disruptions.



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