

SUPPLY CHAIN RISKS

BIG OR SMALL, PREPARE FOR THEM ALL

Supply chain management is risky business.

Not only does risk come in many forms, but it is constantly evolving and growing in magnitude year-over-year. And while natural and man-made disasters often capture headlines and attention, risk in day-to-day business activities and decisions can be just as impactful to your business. Making risk management strategies a top priority is how leading companies are ensuring success both in 'normal' operating conditions and when faced with catastrophic supply chain disruptions.

The CIPS Risk Index, powered by Dun and Bradstreet:



TYPES OF RISK



Anticipated Risk

More controllable, can be quantified and anticipated, risks that are part of doing business, can be planned for

- Competition
- Employee skills and talent acquisition/retention
- IT system changes
- Security breaches
- Supplier quality/performance
- Labor issues
- Regulations
- Counterfeit/Contaminated products
- Rapid growth
- Supplier base changes



Uncontrollable Anticipated Risk

Can be anticipated but not controlled; hard to quantify/plan for

- Demand fluctuations
- Supply disruptions
- Transportation delays
- Fuel pricing
- Availability/Pricing of raw materials
- Limitations in planning/execution



Unanticipated Risk

Out of our control, hard to anticipate/plan for, often large scale, get lots of media attention, more difficult to plan for

- Natural disasters
- Political and social change/unrest
- War
- Pandemics/Disease
- Terrorism/Piracy
- Accidents



of supply chain disruptions come from Tier 2 suppliers and below²



of companies in 2013 had at least one material disruption (most had 3!)³



In the US, from the 1980s to 1990s, natural disasters with losses over \$1B climbed over

In all cases, processes, plans, enabling tools and technology can be put in place to improve reaction times and decrease impact.

MAJOR RISK DRIVERS

Business practices designed to make the supply chain more efficient from a cost and agility perspective also create risk:

Lean and Just-In-Time practices	shortened reaction times, less stock availability
Outsourcing	longer lead times, loss of control
Single-source suppliers	no redundancy
Centralized suppliers/operations	more susceptible to political/environmental related disruptions
Siloed business processes	lack of visibility, communication and collaboration

IMPACT OF RISK

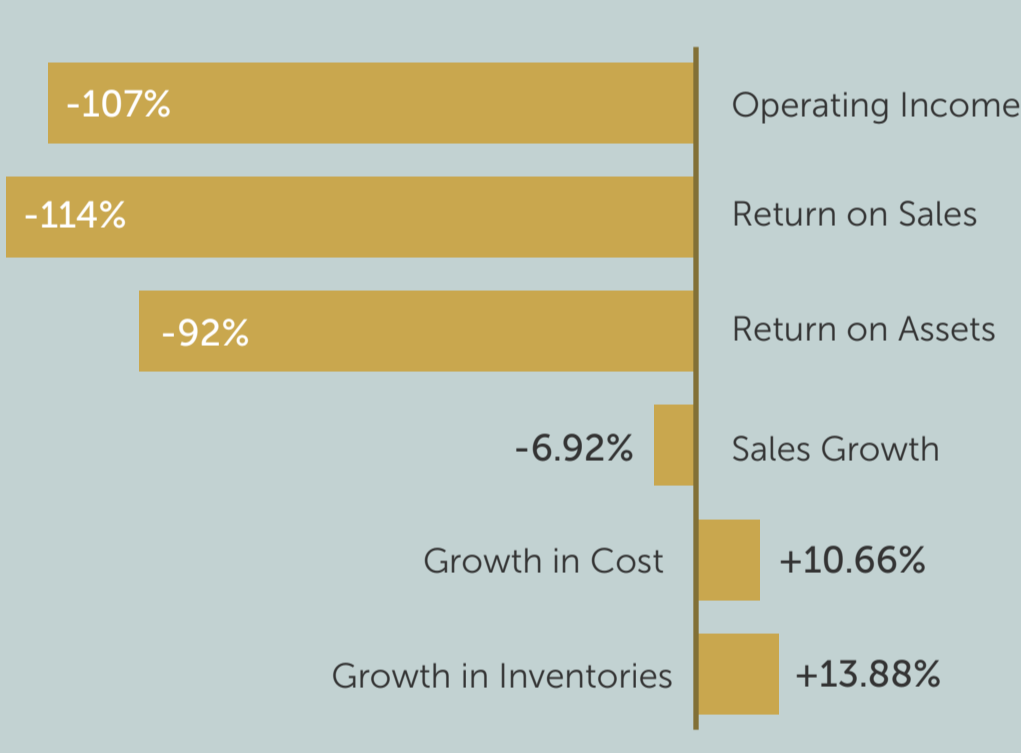
Based on a survey of ~800 publicly traded firms who announced a major supply chain disruption⁵:

Avg. Impact on Stock Price Performance From Disruption Announcements



The negative effects of supply chain disruptions on stock value have long-term impact.

Avg. Impact on Profitability Resulting From Disruptions



higher share price volatility in the year after the disruption⁵

NOT PREPARED TO MANAGE RISK



of companies have immature risk processes⁶



of organizations have a risk team within their supply chain organization²

CHALLENGES TO RISK MITIGATION



Multitude of different risks that are constantly changing



Risk management looks industry; there is no single solution to managing risk



Achieving visibility across disparate systems and beyond direct suppliers into sub-tiers



Managing supply chain efficiency and risk

COMPETENCIES REQUIRED

When preparing for and reacting to a disruptive event, the following competencies are critical:

Visibility	Unified view of your entire supply chain—regardless of the number and location of nodes and supporting data systems—facilitates agility, alignment and collaboration.
Scenario Simulation and Evaluation	Ability to quickly simulate a change in the supply chain in order to understand its impact and make informed decisions on how best to react.
Exception Management	Exception-based notifications that call attention to urgent supply chain changes; ability to understand the context and impact of those changes so next steps can be determined before the issue becomes a major disruption.
Multi-Party Collaboration	Ability to automatically identify which suppliers and customers are impacted by a supply or demand change, and bring the necessary people together to collaborate on a solution.
Agility	Ability to react quickly both in terms of understanding the issue and responding to it. The faster the response, the less of an impact it will have.

ENJOY THE PAYOFF

Advantages to focusing on risk management include:

- Prevent some risks entirely, stop others from becoming major disruptions
- Maximize reaction time in crisis situations
- Make the right decisions the first time
- Be more prepared to deal with any risk that comes your way
- Minimize damages and potentially gain competitive advantage
- Drive customer satisfaction and retention
- Strongly influence business profitability and avoid margin loss
- Minimize negative impacts to earnings per share



of companies investing in risk management saw 26-100% ROI⁷

As a supply chain professional, you can't predict the future. Nor can you plan for every potential risk your supply chain might face. But you can take a proactive approach to risk management and set yourself up for success.

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Want to learn more about risk management?



WHITE PAPER

Knowing the Risks - Mitigating And Responding for Success

www.kinaxis.com/go/risk-paper



1 CIPS Risk Index: A Global Retrospective, Chartered Institute of Purchasing & Supply, Q1 2014

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5 Hendricks, K., and Singhal, V., The Effect of Supply Chain Disruptions on Long-term Shareholder Value, Profitability, and Share Price Volatility, June 2005

6 Kyrazoglou, I., Making the Right Risk Decisions to Strengthen Operations Performance, MIT System Design and Management, October 2013

7 Don't Play it Safe When it Comes to Supply Chain Risk Management, Accenture Global Operations Megatrends Study, June 2014