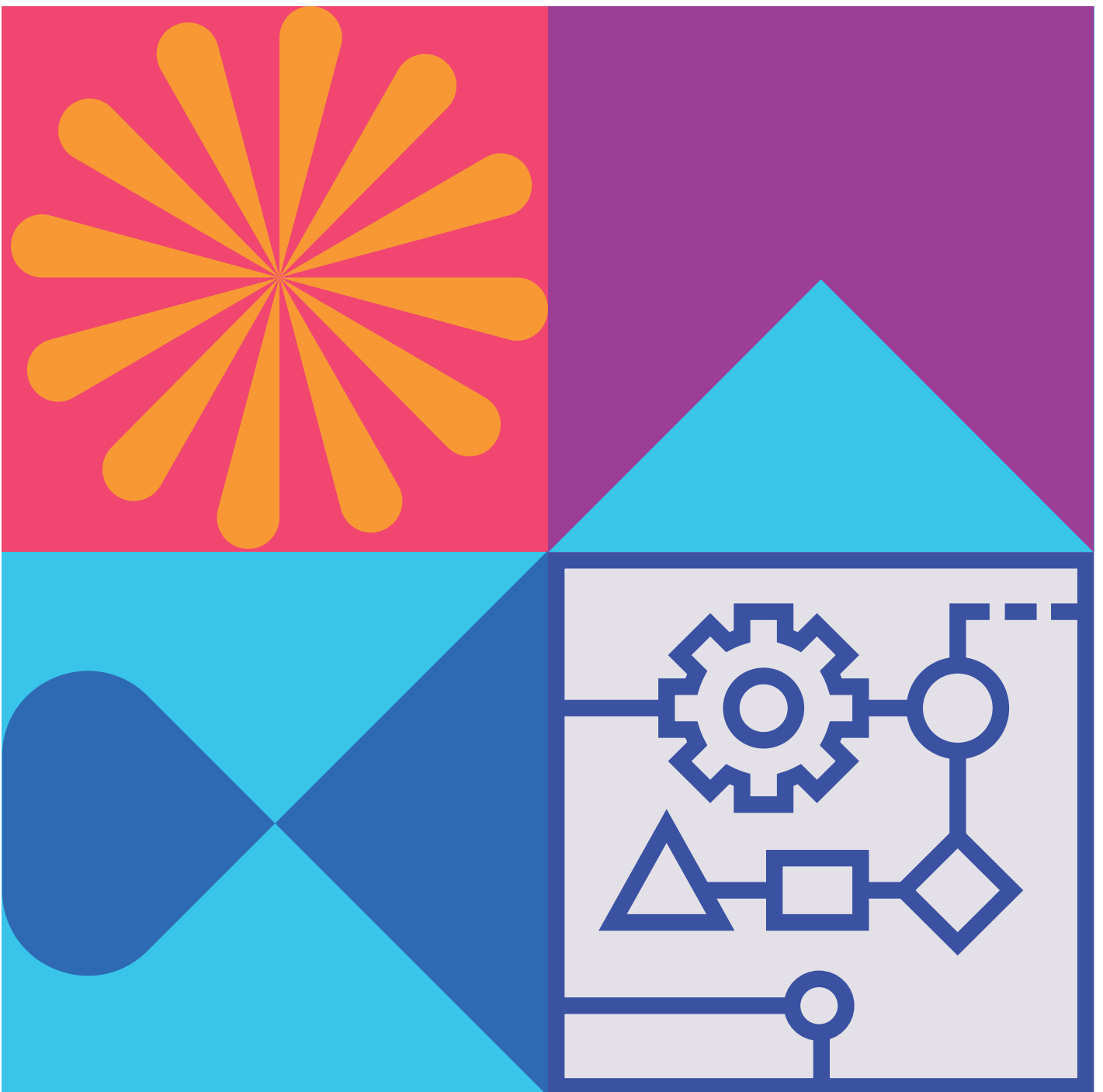


WHITE PAPER



A Rosslyn guide to intelligently mitigating risk in your supply base



To monitor your supply base, automation is essential to keeping processes streamlined, efficient and sustainable over time.

The last few years have tested many procurement organizations to their absolute limit. The increasing scale of natural disasters, tightening credit conditions worldwide, and volatile diplomatic relationships and trade conditions have introduced unprecedented levels of risk and uncertainty in the supply chain.

The complex nature of these risks combined with a lack of organizational resources has created a challenging operating environment for procurement. Although risk has not been historically audited closely in procurement teams (often being accounted for under tick-box supplier codes of conduct), the reality today is intense levels of scrutiny and significant consequences in the event of failure.



54%

of top procurement leaders say managing risks remains their top business strategy

Source: Deloitte Global CPO Survey

How do you intelligently define risk?

The unpredictable nature of current markets necessitates an expansion of how we view risk. It is no longer sufficient to view supplier risk as anything that stops a vendor delivering on their contract; the fundamental task is now to identify anything that will stop your organization from doing business.

Without sufficient levels of scrutiny, inaccurate supplier information can be used as the basis of decisions for years afterwards.

Looking at risk this way requires a much more granular view of your supply base – behind the large-scale global risks in headlines you may have a smaller but equally important risk to your business, like a critical supplier facing cash flow issues and requiring early payments for the next quarter.

The traditional method of evaluating suppliers solely using risk registers is no longer fit for purpose as many procurement teams do not have access to the information needed to accurately segment their supply base in terms of value creation, process systems efficiency and more strategic objectives.

What's holding you back?

Such a diverse range of risks can be extremely difficult to manage and prioritize. With consistent stakeholder pressure for procurement organizations to innovate and expand capabilities while simultaneously cutting operating costs, it can be challenging to dedicate the resources necessary to analyze risk across an entire supply chain. One of the biggest challenges for many teams is insufficient visibility into detailed insights beyond tier one suppliers.

Help from elsewhere in the business is often lacking

Although business assurance, corporate governance and audit teams regularly provide objective critiques of how well the procurement department evaluates risk, it is rare in most organizations to get concrete guidance on how to strengthen and simplify these processes.

Even once each risk has been defined by its impact and the likelihood of disruption, the result is often a consolidated overview from a group perspective that does not benefit from the additional insight and expertise of the procurement specialists that have the greatest experience and knowledge of individual suppliers.

For teams with a reactive approach to supply chain risk, regular business reviews using tools such as Google Alerts and CreditSafe will generally pick up large changes such as a supplier deciding to outsource a large part of the contract, or mergers and acquisitions. The challenge comes in then trying to evaluate how that information impacts on KPIs and SLAs – an analysis that becomes extremely resource intensive when using traditional methods such as tiering tools in Excel.

Ultimately, to maintain a wider scope of vigilance and proactively monitor the supply base, an automated solution is essential to keeping processes streamlined, efficient and sustainable over time.

What does safeguarding your supply chain look like?

After the 2011 Tōhoku earthquake, which forced Toyota to completely halt vehicle production, the business learned a significant lesson about the importance of intelligently mitigating risk. The biggest takeaway was the crucial need for more detailed insights into their suppliers, and the next few months saw Toyota build an information network that covered production of about 4,000 types of auto parts.

When the 2016 Kumamoto earthquake struck, Toyota was able to quickly identify which suppliers had been affected by the disaster and immediately shift parts of production to suppliers that had not suffered from disruption.

During the pandemic, Jaguar Land Rover were forced to temporarily close their two main car factories due to a shortage of computer chips, with suppliers unable to adjust to the increase in demand. This left the company vulnerable; they were unable to order parts when they were needed, which prevented their supply chain from operating as it should.

The ability to respond rapidly to disruptions and prepare for supplier vulnerabilities is essential for procurement teams trying to safeguard their supply chain. But it can quickly become an impossible task without access to all the necessary systems and data around the wider business to create a 360° true view of risk. This lack of supply chain transparency is still a widespread issue.

When you have identified risk data from around the business, it's essential to integrate and analyze this information early enough to predict and mitigate a risk event. High performing procurement teams use tools to pull relevant data from multiple external sources and also ensure that the underlying data is of high quality.

Once your data is consolidated, the ideal tool will also provide a user-friendly view of all available information about a supplier in one place. This single view will allow a category manager, supplier manager or business user to seamlessly review a supplier rather than visiting multiple sources, loading content into a spreadsheet and manually estimating anticipated levels of risk.

This new level of insight will enable you to perform more advanced analysis than standard reporting allows. Although looking at headline volumes of overall spend per supplier can still be helpful, a consolidated view of supplier information will support you to perform what-if analysis, like identifying overstretched SME suppliers holding multiple contracts for different categories who may have overcommitted their resources.

Ultimately, mitigating risk requires a continuous dialogue. A best practice approach includes requiring your suppliers to answer quantitative and qualitative questions to help form their risk profile, avoiding the possibility of overlooking risks by only relying on an internal perspective.

It's also critical to communicate your own specific risk appetites to your supply base – a supplier may assume you are solely focused on business continuity but not realize how important anti-corruption and ethical issues are to your brand reputation.

With the right tools in place, managing suppliers becomes a streamlined, proactive process where risk can be monitored in real time, supplier audits can be crowd sourced for a true picture across an organization, and sustainability can be visualized for an at-a-glance assessment of how a company is performing against ethical targets.



27.8%

of organizations
experienced 10 or more
disruptions to their
supply chain in 2020.

Source: BCI Supply Chain Resilience Report 2021

Where should you start?

As with the majority of business transformation projects, it is essential to examine your existing processes before you evaluate which tools can support your new way of working.

Do you currently have a policy available to help category managers understand what level of risk planning should be involved for each supplier?

If there is a policy, is it sufficiently detailed to account for different use cases across categories, for both new and existing suppliers?

Relying on codes of conduct and ethics statements are no longer sufficient to guarantee against reputational risk—as we saw with the BooHoo supply chain meltdown after modern slavery claims against the online retailer. Consumers and end users will not draw the distinction between you and your supplier in the event of failure.

It can also be a valuable exercise to review the language used in your contracts. By working more closely with your legal team, you can ensure that contract templates remain fit for purpose as the types of suppliers you work with evolves.

Having weak language that is not specific enough can create risks further down the line, and it can be dangerous to assume your legal team has accounted for this when the domain expertise for specific suppliers often sits in procurement.

One overlooked area where risk frequently enters the business is at the point of onboarding suppliers. Without sufficient levels of scrutiny, it is all too common for incomplete or inaccurate supplier information to be entered into multiple systems and used as the basis of decisions for months or even years afterwards. Establishing a consistent and simplified process at the point of onboarding can save significant resource requirements further down the supplier lifecycle and is often the quickest win for procurement organizations trying to reduce risk.

Moving forward

The nature of risk has fundamentally shifted for businesses. As risks become more complex, responsibility is increasingly redistributed throughout the organization. Even enterprises with centralized risk functions or committees are working more closely with all areas across the business.

A well-defined and robust risk mitigation strategy is now a requirement for all procurement professionals.

To succeed in this environment, it will be essential to establish processes and tools that automatically deliver analytically sound, structured information that is easily accessible and understood. As supply chain risks evolve, your strategy can evolve alongside them, by adding new sources of data such as commodities tracking, benchmarking and more into your perspective.

To become a high-performing procurement team going forward, procurement must:

- **Assess existing supplier relationships** (particularly outside of tier one) to identify new opportunities for engagement.
- **Bring different sources of risk insight together**, to enable your team to generate answers you can trust to maintain a clean and efficient supply chain.
- **Automate manual processes** to reduce response time to supply chain risks.
- **Cross-train procurement** to develop their analytics capabilities—moving away from reporting what has already happened and starting to predict how spend might evolve over time.
- **Modernize core tools and processes** to assist procurement in consolidating, cleansing and visualizing increasing amounts of supplier insights data.
- **Collaborate with colleagues in compliance, governance and finance teams** to ensure every angle of supply chain risk is accounted for.
- By bringing these different sources of risk insight together, your team will be able to generate answers you can trust to maintain a clean and efficient supply chain.



At Rosslyn, we're here to help procurement teams modernize their core tools and processes to safeguard their supply chain.

Get in touch today to find out more.



About Rosslyn

Since 2005, Rosslyn has been at the forefront of helping organizations deliver accelerated business value through data insight. With thousands of users in over fifty countries, we empower organizations to automate critical business processes and analytics through simple, self-service tools.

Our portfolio of services ranges from AI-driven Procurement Analytics to Data Management.

Let us reveal the story within your data. Speak to a member of the Rosslyn team to find out how on **+44 020 3285 8008** or email us at **info@rosslyn.ai**.

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