

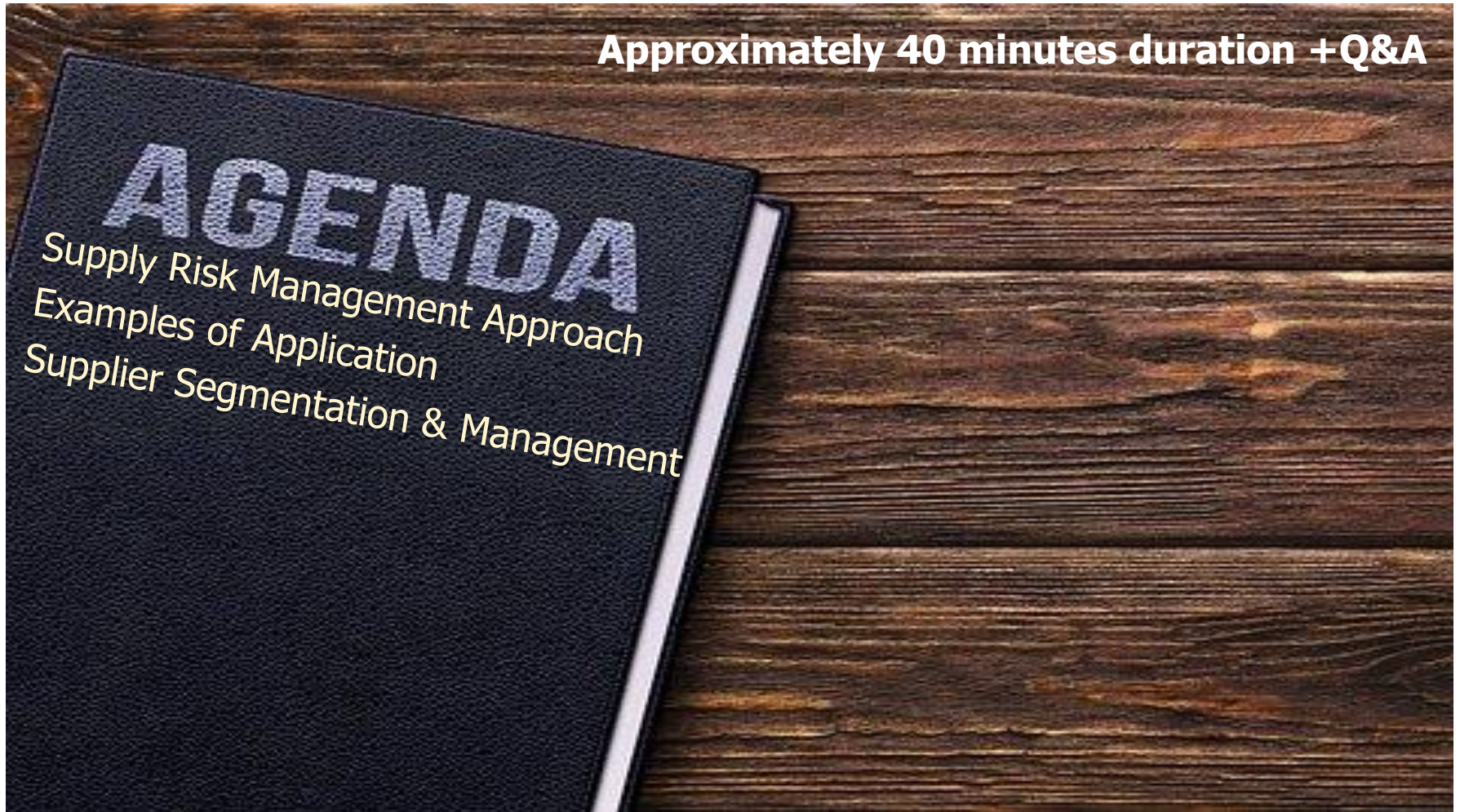
FREE WEBINAR SERIES

Managing Supply Risks

Tuesday 30th June 1PM London (BST)

Our Session Introduction

Approximately 40 minutes duration + Q&A



Did You Know?

Most organisations spend far more on suppliers than they do on their own staff





\$ £ € \$ £ € \$ £ € \$ £ € \$ £ € \$ £ € \$ £ € \$ £ € \$ £ € \$ £ € \$ £ € \$ £ € \$

A dramatic scene at sunset on a ship's deck. A military helicopter is in the air, hoisting a supply pallet. A person on the deck has their arms raised in a gesture of triumph or success. The sky is filled with colorful clouds, and the sun is low on the horizon, creating a strong silhouette effect.

SUPPLY RISK MANAGEMENT APPROACH

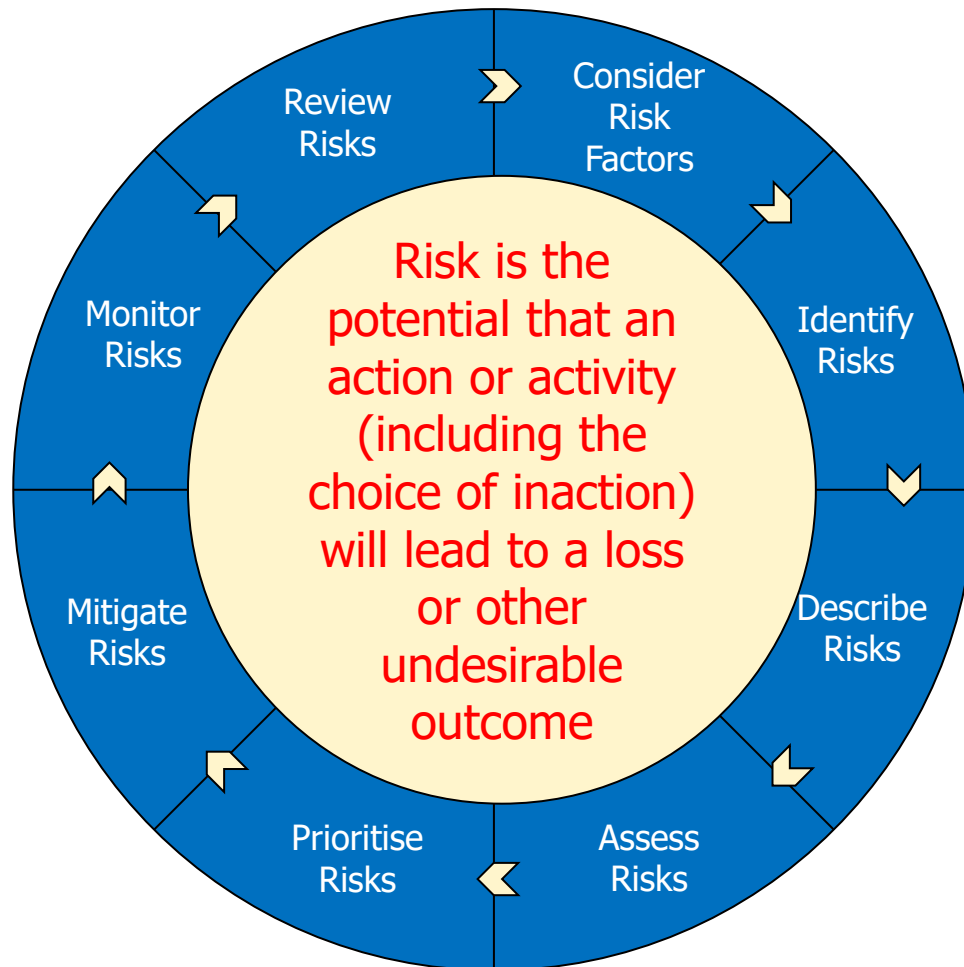
Managing Supply Risks

The value of a systematic approach

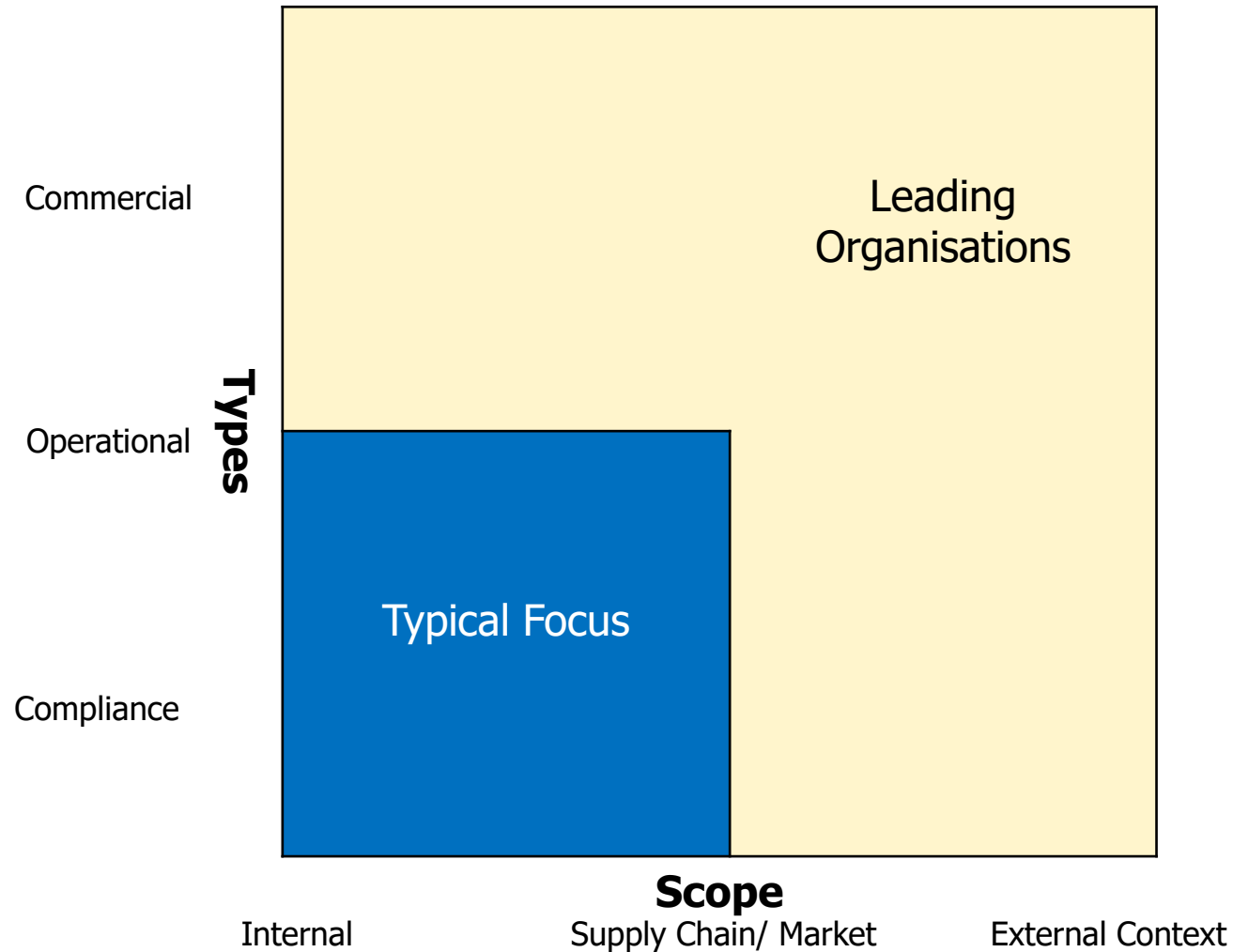
Scope 	Focus 
Challenges the organisation to broaden its search for all potential key supply risks	Identifies and prioritises those risks that require the most management attention
Action 	Review 
Ensures establishment of robust actions to reduce likelihood and/or impact	Requires strong governance to update risk landscape, and improve effectiveness of actions

Risk Management Methodology

A continuous improvement cycle



Consider all Risk Factors ...



... Consider all Risk Factors

EXAMPLES		Scope		
		Internal	Supply Chain/ Market	External Context
Type	Commercial	Market knowledge Functional capability Specifications	Financial health Lack of competition Supply scarcity	Exchange Rate Duties/ tariffs Input costs
	Operational	Contractor management Inventory management Demand planning	HSE standards Product quality Delivery reliability	Pandemic Political change Climate change Office fire/ incident
	Compliance	Separation of duties Pre-qualification Compliance with regulations	Collusion Labour practices Bribery & corruption Industry standards	New regulations New standards

Identify Risks

- Consider all risk factors
- Consider use of a facilitator
- Take time to brainstorm, leveraging diverse experience
- Involve procurement and supply chain management team and diverse range of stakeholders
- Include both strategic and operational representatives
- Cross-functional discussion will improve breadth/ depth
- Select significant risks that require proactive management

Describe Risks

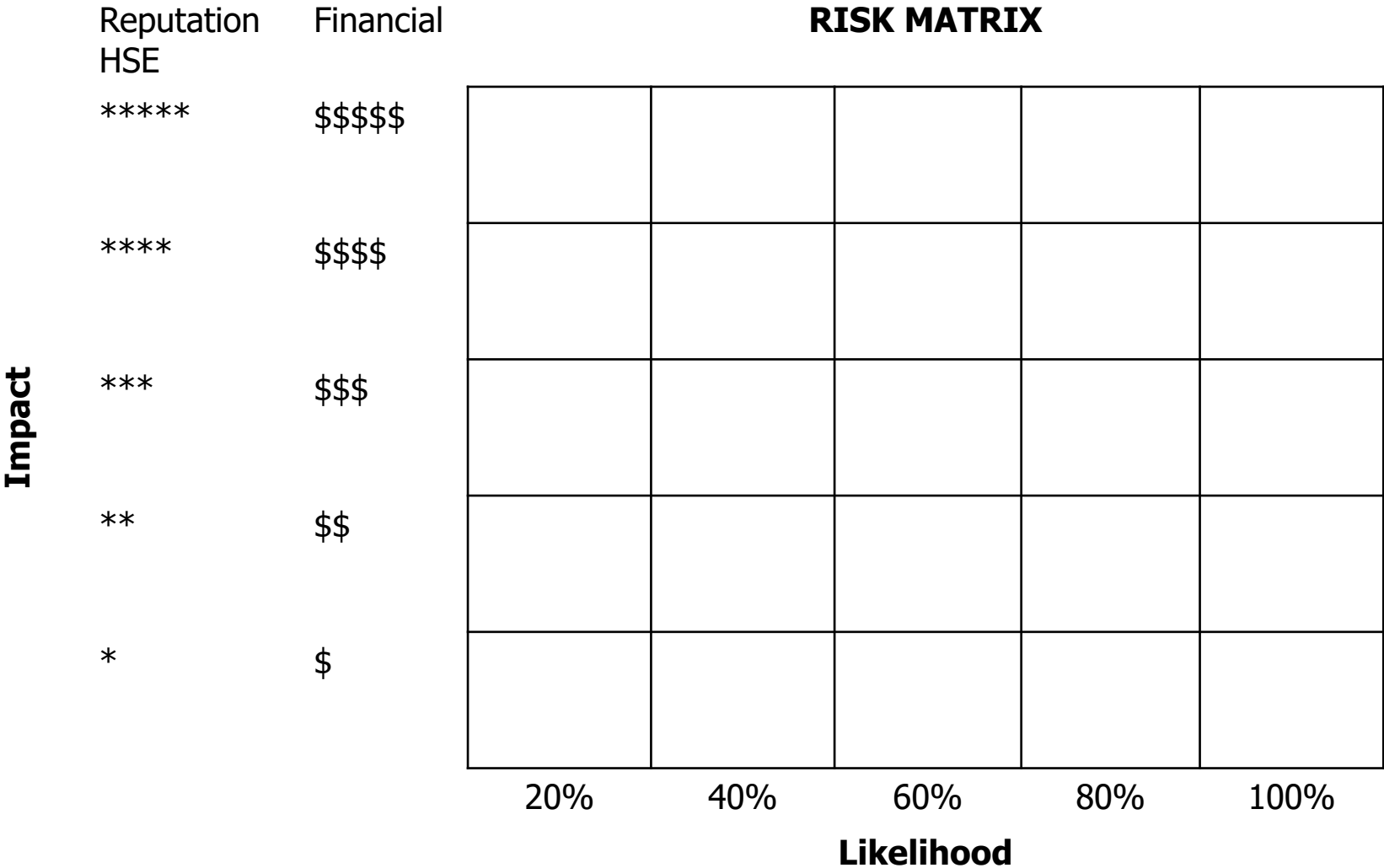


There is a risk of [Event] due to [Cause] resulting in [Outcome]

Example

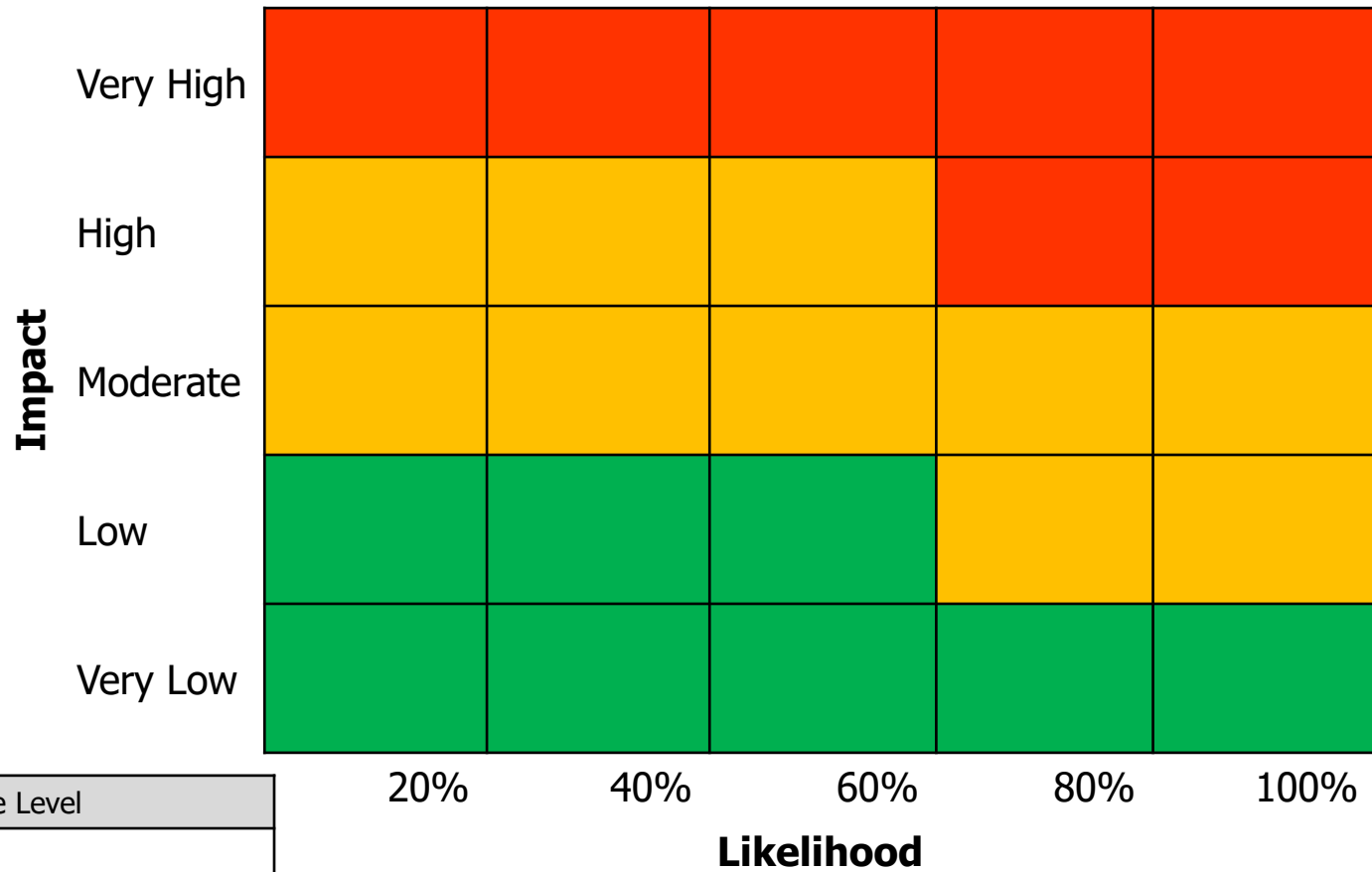
There is a risk of the stock of Material X running out **due to** long lead times and unreliable delivery performance **resulting in** disruption to operations

Assess Risks ... according to both impact and likelihood



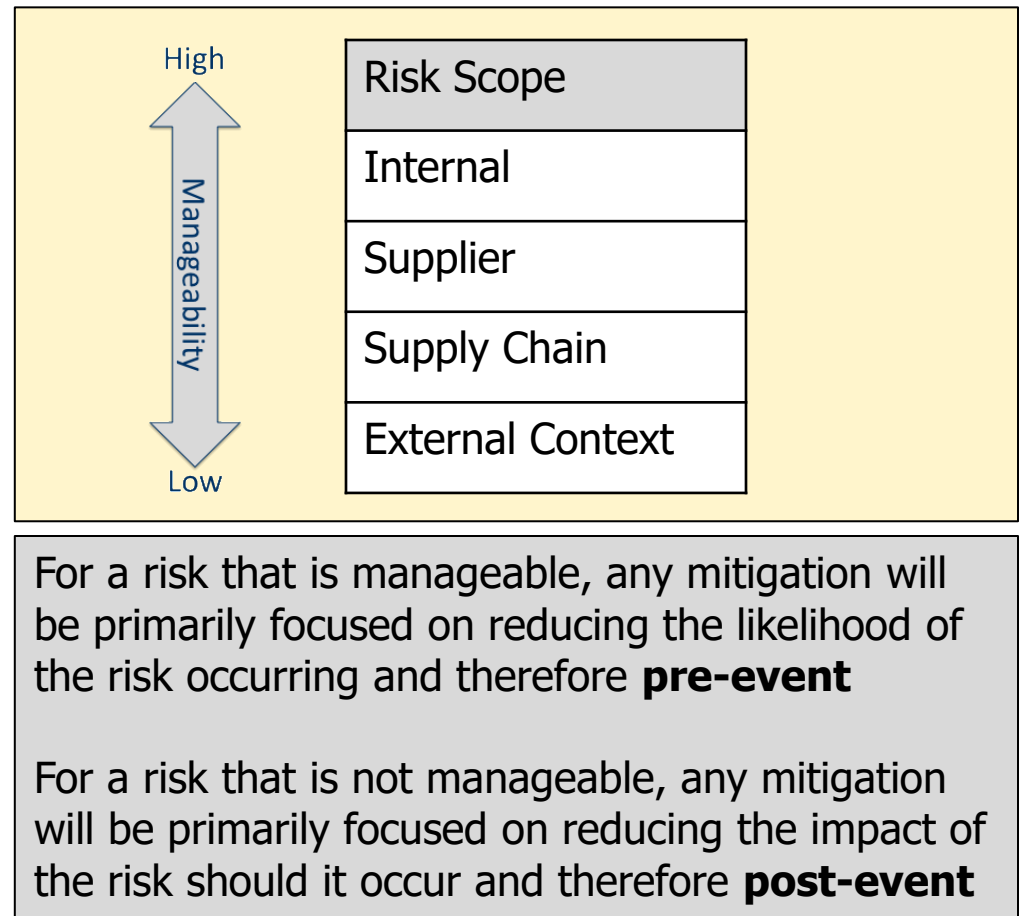
Prioritise Risks

RISK MATRIX



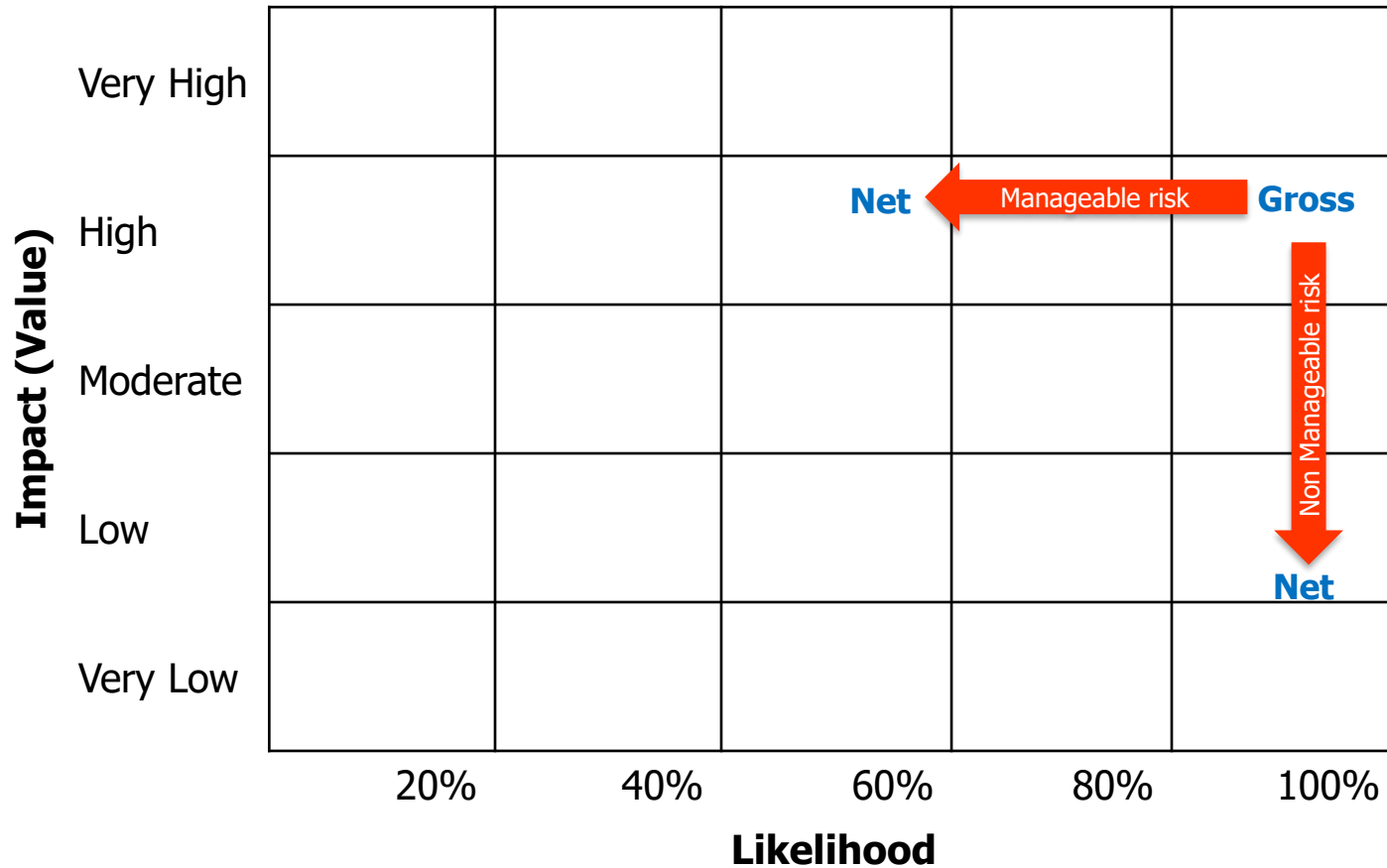
	Governance Level
Red	Board
Yellow	Divisional Leadership
Green	Procurement and Supply Chain Management Leadership

Mitigate Risks ...



... Mitigate Risks

RISK MATRIX



Monitor Risks ... at defined governance level

Formal periodic governance meetings enabled by Risk Register:

Usually a “living” Excel Spreadsheet in which each Row represents a Risk and the following columns enable monitoring:

- Risk Owner - name
- Risk Title - short description ~ 5 words
- Risk Description – full description along lines of examples
- Gross Risk – both impact and likelihood
- Risk Mitigation – actions to decrease likelihood /impact
- Net Risk – both impact and likelihood

Review Risks

As well as monitoring the effectiveness of risk mitigations defined and prioritised in the risk matrix, and contained in the risk register, the governance process should challenge the Procurement and Supply Chain Management function to:

- continually review its assessment of identified risks
- consider whether any other significant risks should be identified, assessed, and mitigated due to any changes in the business environment

The risk management process is therefore a continuous cycle

Risk Management Methodology

A continuous improvement cycle



A dramatic scene at sunset on a ship's deck. A helicopter is hoisting a net full of fish. A person on the deck has their arms raised in celebration. The sky is filled with colorful clouds, and the sun is low on the horizon. The deck has a checkered pattern, and there are other structures visible in the distance.

EXAMPLES OF APPLICATION

Examples of Risk Management ...

Risk	Factor		Mitigations	Pre or Post Event
There is a risk of collusion within the supply market for Product [A] due to insufficient competition resulting in higher prices	Commercial Compliance	Supply Market	Standardise specifications to open up market	Pre
There is a risk of Supplier [X] ceasing to trade due to poor financial health resulting in loss of production/ sales	Commercial	Supplier	Rigorous pre-qualification Back up supplier in place	Pre Post
There is a risk of bias in supplier selection due to conflicts of interest resulting in higher costs/ poorer service and damage to reputation	Compliance	Internal Capability	Tender/ Supplier Selection Committee members required to sign letters declaring no conflict of interest.	Pre
There is a risk of accidents due to poor safety culture and practices in third party contractors resulting in fatalities and damage to reputation	Operational	Supply Market	Rigorous pre-qualification Comprehensive training Near-miss tracking/follow up	Pre Pre Post
There is a risk of negative publicity due use of child labour (or poor environmental standards) within the factory of Supplier [Y] resulting in damage to reputation and lower sales	Compliance Operational	Supplier	Rigorous pre-qualification Up front factory audit Spot audits	Pre Pre Post

... Examples of Risk Management

Risk	Factor		Mitigations	Pre or Post Event
There is a risk of sub-optimal specifications due to inadequate communications between the Procurement and Technical teams resulting in a missed opportunity for lower Total Cost of Ownership	Commercial	Internal Capability	Cross-functional value engineering workshops	Pre
There is a risk of not identifying all potential suppliers, due to limited supply market knowledge, resulting in sub-optimal supplier selection decisions.	Commercial	Internal Capability	Build Market Intelligence/ Analysis Capability	Pre
There is a risk of a shortage in [Active Ingredient P], due to global demands from the Covid 19 pandemic, resulting in shortages of [Product B] and adverse health outcomes	Commercial Operational	External Environment Supply Market (component)	Explore reformulation Consider alternative treatments Hold buffer stocks	Pre Post Post
There is a risk of price increases for equipment, due to an increase in input costs (e.g. labour, energy, silicon), resulting in budget over-run	Commercial	External Environment Supply Market (raw material)	Place risk with supplier in contract Hedge costs	Pre Pre

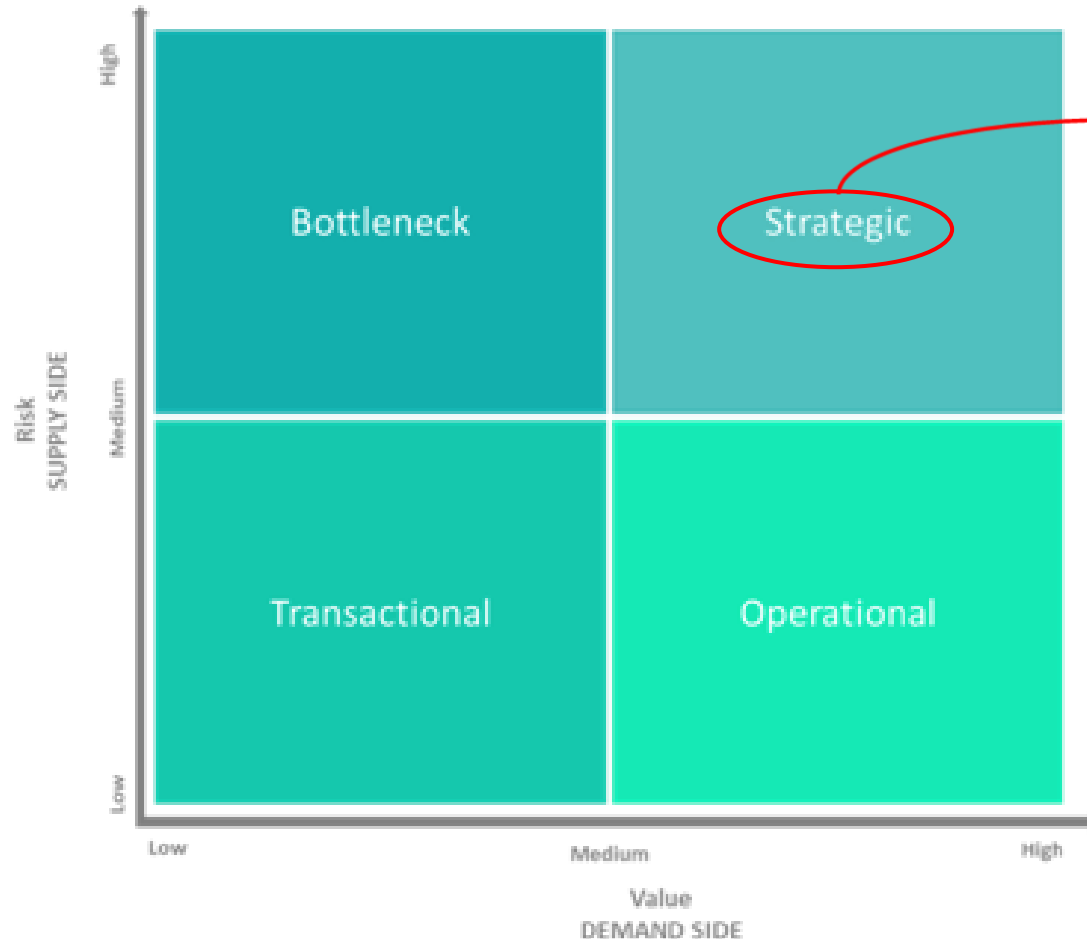
A dramatic scene at sunset or sunrise on a ship's deck. A helicopter is hoisting a net full of supplies. A person stands on the deck with arms raised. The sky is filled with colorful clouds.

SUPPLIER SEGMENTATION & MANAGEMENT

Supplier Segmentation Model

A critical means of mitigating risks with active suppliers

Positioning typically enabled by a structured tool to assess risk and value



Typically less than 5% of the number of active suppliers, but up to 50% of the value, with the most exposure to supply risks

Kraljic Matrix

Type of Relationship by Segment

Segment	Segment Characteristics	Relationship Focus
Strategic	<ul style="list-style-type: none"> • High risk, high value/ spend suppliers • Critical products/ services supplied • Few sources of supply within the market • High switching costs 	<ul style="list-style-type: none"> • Longer term relationship • Partnership approach • Robust, ongoing risk management • Continuous improvement • Less frequent tendering (e.g. 3+ years)
Bottleneck	<ul style="list-style-type: none"> • High risk, low value/ spend suppliers • Typically, critical products/ services supplied • Often specialist / niche markets • High switching costs 	<ul style="list-style-type: none"> • Try to remove bottleneck by shifting to other quadrant e.g. develop new suppliers / seek alternative product solution or key component
Operational	<ul style="list-style-type: none"> • Low risk, high value/ spend suppliers • Low complexity, standardised products/ services • Multiple sources of supply within the market • Low switching costs 	<ul style="list-style-type: none"> • Leverage purchasing power • Regular tendering (e.g. 2 years) • Manage performance
Transactional	<ul style="list-style-type: none"> • Low risk, low value/ spend suppliers • Standardised products/ services • Multiple sources of supply within the market • Low switching costs 	<ul style="list-style-type: none"> • Automate as far as possible • Standardise products • Optimise order volumes

Management of Strategic Suppliers

... providing greater focus and action

- Senior Relationship Owner
- Governance Board
(representation from both client and supplier)
- Quarterly Performance Reviews with focus on:
 - Performance management (fulfilling contract expectations)
 - Continuous improvement/ innovations
 - “Total Cost” savings
 - **Robust and ongoing risk management**



Q & A

Upcoming Courses

- Virtual Workshops
 - 13+++
 - Procurement and Supply Chain Management – Keith
- Classroom Based Training Courses
 - September restart
 - FastTrack to Leadership
 - Leadership in Global Energy
 - The 3 Day MBA in Energy in Transition
- FREE Webinar Series
 - Tuesday 21st July at 1PM London (BST): Leadership

www.warrenbusinessconsulting.com