The ten most dangerous trends impacting retail supply chains today
The simple fact is that in today's longer global supply chains, product moves over greater distances and across more multinational borders than in the more localised supply chains of the past. In an era of wildly fluctuating commodity prices and security regulations, the coordination and execution required for international shipments has become more of a challenge than in the past. This distance-based supply chain, whose links are forged by many supplier tiers in various countries, carries a risk in that the longer and more diverse it becomes, the more it is susceptible to unforeseen circumstances. By consequence, the supply chain is rendered delicate, extended, and bloated in some way.

But now we find that market conditions, security considerations, transportation versus inventory costs of ownership, and increasing regulatory and political pressures are converging in such a way that it makes the task even more daunting.

With these significant challenges, our risk differentiation decisions and our supply base's financial stability influence the supply chain and are influenced by the supply chain. More importantly, taken together, total supply chain costs consume about 7 to 12 percent of corporate annual revenue across all industries.

According to a multi-year analysis of suppliers to Fortune 1000 suppliers conducted by CVM Solutions, the 2010 study showed that the overall number of relevant and highly used suppliers is significantly smaller than many believed and decreasing at a faster pace than in previous years. This trend leads CVM to believe that there is a Darwinian effect occurring in the supply chain as Fortune 1000 companies cut weaker suppliers and replace them with stronger ones.

As we face the potential for a shrinking supplier base will this also impact supplier capacity to meet customer demand? It appears that the smaller, independent suppliers are going out of business or being discontinued, while the big supplier corporate families seem to be getting bigger through mergers and industry consolidation. For those that frequently buy from smaller, and potentially more vulnerable organisations, you need to be on the lookout for symptoms that a supplier might be unable to weather the current financial storm.

On average Fortune 1000 companies are managing risk for less than a fifth of their suppliers, new research claims. The poll conducted by SIM software and services firm Aravo, found that more than half of the financial, procurement, and risk executives polled from Fortune 1000 firms have less than 20 per cent of their supplier
base under active risk management. A significant number of those polled (71.4 per cent) expressed that their biggest concern continues to be risk of supplier financial viability.

Closely monitoring the financial health of suppliers has become an important part of the job for anyone involved in a company’s purchasing or procurement sourcing efforts. During these tough times, relationships should be a truly collaborative process, with the supplier communicating any anticipated failure or disruption well in advance. A solvent supplier yesterday may become an insolvent supplier today. While supplier insolvency is a known risk, the recent economic downturn has brought it to the forefront. To weather this and future storms, organisations must focus on a proactive approach to better anticipate changes in supplier viability and financial health.

Mounting supplier viability concerns require a comprehensive audit around supplier risk with a scorecard that provides valuable guidance for supply base rationalisation decisions and maintaining the “health” of key suppliers.

According to a recent research project by the Procurement Strategy Council (PSC), procurement organisations pay, on average, an additional 4% to resolve a supply incident stemming from supplier financial distress. What specifically accounts for that 4% cost increase? According to the PSC research, the real cost of poor supplier risk management includes: supplier product line or facility closures; reduction in quality standards, and supplier layoffs, and bankruptcies.

The CATTAN definition of “Supply Risk” is defined as the probability of an incident associated with the inbound supply from individual supplier failures and/or the consequences of a volatile supply market occurring, in which the outcomes result in the inability of the purchasing firm to meet customer demand or cause threats to its customer base due to change, uncertainty, variability, and chaos particularly during turbulent times.

For procurement, risk management represents the process of measuring or assessing risk and then developing the right strategies. Unfortunately, according to many, including AMR Research, such ideal circumstances don’t always occur. The research firm says companies—especially those that frequently buy from smaller and potentially more vulnerable organisations—need to be on the lookout for symptoms that a supplier might be unable to weather the current financial storm.

AMR Research suggests keeping an eye out for the following ten warning signs of a supplier at risk:

1. The supplier has a large part of its businesses in depressed industries
2. It has raw material shortages, or cannot meet the agreed upon lead-times because of late purchase order placement
3. It has heavily cut investment in R&D, IT, capital equipment and/or resources
4. The quality of supply is deteriorating
5. The supplier has entered into significant contracts with new customers
6. Staff is being laid off, and your salesperson is nowhere to be found
7. Additional discounts are offered for early payment or require cash in advance
8. The supplier is restating earnings and outlooks
9. It has high labour content that requires a large weekly payroll
10. The supplier has absorbed heavy, upfront R&D and manufacturing tooling investments on new products that are delayed—therefore extending the time to break even

Having assessed the risks and identified those that require action, plans need to be drawn up and responsibilities assigned to control and mitigate these risks. This means risk identification, risk assessment, and risk mitigation.

Open Ratings (part of Dun & Bradstreet) provides purchasers with the ability to proactively predict, identify, and plan for potential supplier problems ahead of time. It allows implementation of mitigation strategies before there is a crisis, giving a much broader range of choices in action and the time to act level-headedly, avoiding expensive, sub-optimal, hasty reactions and possibly a very expensive, high-profile supply failure.

In response to the supply chain’s weaknesses and vulnerabilities, SupplyOn, a platform for buyer-supplier collaboration in the manufacturing sector, has redesigned its service to enhance the process of supplier evaluation. The company’s “Performance Monitor” lets users analyse supplier evaluation data in a variety of ways, such as parts quality and delivery reliability. For example, companies conducting supplier assessments can carry out comparative analyses.

Another source, Panjiva, states it is the leading intelligence platform for global trade professionals. Panjiva will tell you if your suppliers have been red-flagged, either because someone on your team has spotted something unusual, or because Panjiva’s data points to problems — such as a dramatic drop in volume shipped to US customers. It also allows you to set up real-time alerts in your Panjiva Dashboard, or work with a Panjiva analyst who can combine shipping data with financial information to provide a complete view of your suppliers’ health.

In closing, the ability to spot trouble ahead of time is extremely valuable. So have you taken into account the fact that engaging the global supply chain has created new risks that you may not have encountered before, risks in your supply base that may surface when you least expect it? So what is your organisation doing to avoid a supplier financial meltdown or to mitigate its effects? What supplier financial viability metrics is your purchasing or procurement sourcing organisation relying on? Do you have a Supply Chain Continuity Plan (SCCP)? Our advice is don’t get too comfortable with the signs of a better global economy.

“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.” Charles Darwin

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