

Accounting and assurance



*How do you
achieve
confidence in
your supply
chain through
effective
supplier risk
management?*

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The recent horse meat substitution scandal is just one example of what can go wrong when companies fail to properly manage supplier risk. Today, supply chains typically include multiple partners, with services and sourcing managed across multiple centres/organisations in a range of jurisdictions. With this in mind, retail and consumer goods companies are considering how they achieve confidence in the performance of their supply chain through effective supplier risk management.

Retail and consumer goods companies continue to increase their use of third-party suppliers in the execution of key strategic imperatives. In many cases, these sourcing and/or offshoring activities are becoming more extensive and sophisticated in order to capture the next level of service delivery, processing efficiency and/or cost savings. However, unless your supplier risk management framework has also evolved, you could face unexpected risks and not capitalise on the potential benefits.

Complex arrangements realise new risks

Traditionally, supplier risk management focused on identifying and mitigating factors that had the potential to disrupt the value chain. However, the extent and complexity of recent sourcing/outsourcing arrangements has increased the likelihood of these risks being realised. Some of these risks may include:

Reputational risk. The risk to your organisation's reputation due to a service or supply interruption, a supplier quality failure, or a supplier's business practices – for example, an overseas supplier with substandard employment arrangements (i.e. social or ethical) or involvement with unlawful practices (i.e. inappropriate commissions or facilitation payments).

Resilience risk. The risk that a supplier failure results in an interruption to customer service, sometimes immediate – for example, an IT failure that prevents customers from placing orders or interacting with your business online.

Information security and privacy. The risk that sensitive data, including customer data, is compromised by a cyber security breach or failure in a supplier company (or a supplier's supplier).

Regulatory risk. The risk of non-compliance with the regulatory requirements and/or commercial undertakings associated with sourcing/outsourcing/offshoring arrangements in the jurisdictions in which you operate.

Commercial risk. The risk of financial loss or cost overruns from poorly managed sourcing/outsourcing arrangements or supplier failures, and inaccurate billing from outsourced parties for the services provided.

Regardless of the supply, sourcing/outsourcing arrangements can involve multiple supplier relationships that are not visible to the end-client, for example, responsible third parties further sourcing/outsourcing to fourth and fifth parties. While this approach has produced real business benefits, it has also given rise to new exposures to risk in the form of supply chain disruptions and long-lasting financial/reputational damage through supplier failures (refer to Figure 1 for further details).

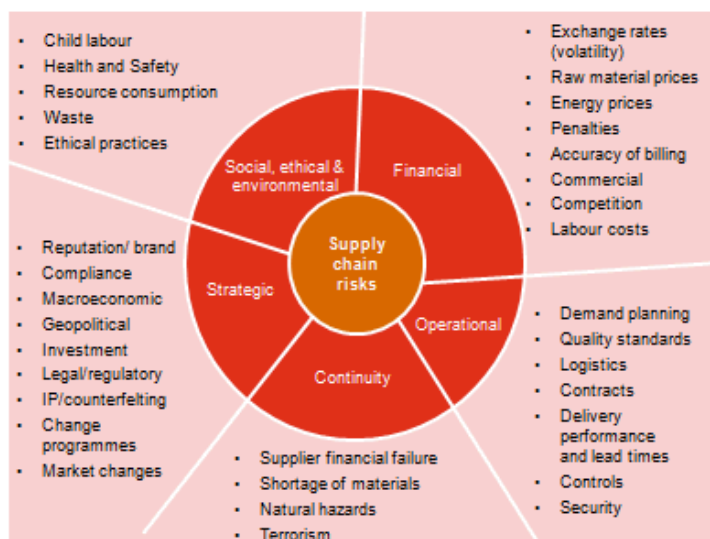


Figure. 1

How do you achieve confidence in your supply chain through effective supplier risk management?

Managing risk while maximising value

What is needed is an overall framework that enables you to manage supplier risk throughout the sourcing lifecycle. A successful framework starts with a sourcing policy that defines and manages key risk and is approved by the board based on risk appetite. A supplier risk management framework not only offers increased levels of control, it can also help your organisation maximise value by offering:

- A more reliable and consistent process for managing supplier risk
- Competitive differentiation through a transparent purchasing policy that supports your corporate social responsibility guidelines
- Increased operational efficiency and reduced costs through centralised contract management
- An enhanced ability to outsource non-core activities and partner with strategic suppliers on key activities
- A reduced need to replace failed suppliers.

The objective is to encourage cost effective sourcing while ensuring the risks and accountability for end-to-end sourcing and service delivery are clearly defined, managed, monitored and understood by both your organisation and your suppliers.

Getting the conversation started

Retail and consumer goods companies should consider if the organisation is managing supplier risk effectively. To start the conversation consider:

- If you have clear visibility of all stages and suppliers in your supply chain?
- If management routinely require suppliers to provide details of their own sourcing/outsourcing and offshoring arrangements?
- How do you regularly monitor the operational, ethical and financial risk and performance of your suppliers?
- How are you assured that your supply chain complies with the relevant regulatory and legal requirements?
- If management takes a risk-based approach to assessing and managing supply chain risk?
- How are you assured by management that you are operating within your supplier/offshoring/outsourcing risk appetite?
- If you are confident you can respond to any supply chain disruption without unacceptable loss?
- How you are confident that you are not being defrauded by employees and/or suppliers?



How do you achieve confidence in your supply chain through effective supplier risk management?

Benefits of getting it right

- Resilience and confidence in your supply chain – achieved through increased knowledge of supplier risk and performance, and through effective assurance mechanisms
- Enhancement of quality and reliability of the end product sold, and the ability to identify and remedy problems which may arise within the supply chain
- Ability to manage crises effectively using streamlined investigative responses and successful claims management
- Greater knowledge of social and environmental practices and standards throughout your supply chain
- Ownership of an early warning surveillance system based on forward looking risk indicators to provide predictive risk monitoring and assist with crisis avoidance
- Compliance with regulatory requirements.

The way forward

There is an expectation by both boards and shareholders that companies be more proactive in response to, and better understand, their supply chain risks. There is also an increasing appetite for a more coordinated, strategic approach to supply chain risk, one which takes a holistic view to identify, monitor, and mitigate weak links in the chain.

Awareness of supplier risk, and the need for a comprehensive framework, presents a great opportunity for organisations to better understand and work with their suppliers.

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