THE MEERCAT® GUIDE TO IMPLEMENTING SUPPLY CHAIN RISK MANAGEMENT

procurence

Let's have it all in black and white

It's time to look in the mirror and do a short self-assessment. Answer the questions to find out where your organisation stands with regards to supply chain risk management.

See any weak spots? Check out this brochure for some helpful tips. Looking for software to help you achieve your goals? Contact us at info@procurence.com

Score yourself as follows

☐ ☐ ☐   uh-oh!

☑ ☐ ☐   poor

☑ ☑ ☐   good

☑ ☑ ☑   great

Supplier selection

Are suppliers qualified by (1) procurement, (2) quality and (3) risk manager at the very least?	☐	☐	☐
Are targets clearly documented and made available for all stakeholders? (As opposed to "put in contracts and forgotten"?) Are immediate development tasks put in place and recorded directly at on-boarding.	☐	☐	☐
Is there a clear on-boarding process, with required certificates, documents, and monitored on-boarding steps?	☐	☐	☐

Ongoing supplier co-operation

Do you evaluate suppliers? (audits, self-assessments, etc.?)	☐	☐	☐
Do you ask suppliers if they are satisfied with your co-operation? (Supplier satisfaction survey) Do you ask them how you can improve your processes?	☐	☐	☐
Are key KPIs (OTD, OTIF, PPM, NCRs, Rework) documented and made available to the suppliers?	☐	☐	☐
Do you classify suppliers and inform them about the reasons of that classification?	☐	☐	☐
Do you give your suppliers development tasks and monitor the status of the developments? Are these tasks documented and followed-up?	☐	☐	☐
Do you share your production plans with your key suppliers and ask them for their capacity in the upcoming years?	☐	☐	☐

Internal communication

Can employees easily find out about who is responsible for the given supplier (category manager, internal KAM)	☐	☐	☐
Is there an easy way for production/logistics to inform the supplier "owner" about their problems and/or (lack of) satisfaction with the supplier?	☐	☐	☐
Is the New Product Introduction process aligned between R&D/Engineering/Quality/Procurement	☐	☐	☐

Risk management

Do you know the locations of your suppliers' factories and do you have a central list of contact persons for key functions?	☐	☐	☐
Do you know the names and locations for your key sub-suppliers?	☐	☐	☐
If there is a flood in Schweinfurt and a dock workers' strike in Rotterdam next week, would you know if your supply chain is affected?	☐	☐	☐
Can you connect your key suppliers to your key customers to quickly answer the above question when your customer asks you if they are affected by the above events?	☐	☐	☐
Do your suppliers have an easy way to inform you about delivery delays?	☐	☐	☐
Do you have a risk register of possible risks that are relevant to each supplier (geographic, political, economic, financial, etc.) and plans to deal with these risks?	☐	☐	☐
Do you follow news concerning the supplier? (RSS, automatic notifications about new issues)	☐	☐	☐
Do you obtain external risk indices concerning supplier risk status?	☐	☐	☐
Do you link supplier's performance to release of additional contracts? Do you review suppliers' performance to find out which suppliers should be phased out?	☐	☐	☐
Do you clearly indicate to all stakeholders that a given supplier cannot be contracted either for a particular commodity, or altogether?	☐	☐	☐
Do you prepare and monitor a phase-out checklist to make sure key phase-out tasks are addressed?	☐	☐	☐

The early bird catches the worm ...

Supply Chain Risk Management (SCRM) is an area plagued by many misconceptions and stereotypes. **Consequently, SCRM implementation is often put off due to the perceived "lack of resources and know-how".**

Yes, you can spend millions on experts, on detailed risk analyses and on ERP-systems integration with some key suppliers. In reality, much can be achieved using simple tools, well-defined processes and a corporate culture of common sense and vigilance.

Our advice: basic supply chain risk management can be implemented with limited resources and you will give you reasonable level of protection while you work to achieve the next level.

Don't wait for the perfect circumstances to start managing supply risk. The time may never come. Start small, start now!

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Staged roll-out

Work based on a long-term vision, but avoid "big-bang" roll-outs - better prepare a staged plan, where you **set attainable goals and phase-in processes one by one.** In this way you give your employees a chance to learn and internalise the new practices.

Key questions to answer

- What resources will you have at your disposal? what can realistically be achieved with these resources?

- Which processes need to be tapped-into for best results?

- What results / reports are expected? how can they be generated?

- Which risks should be tackled first?

What to focus on first?

- **Corporate strategy as a starting point**
  Is your corporation set on cost leadership, steady supply, innovation or fast expansion? What's most likely to prevent you from achieving these objectives?

- **Disruption statistics**
  Gather information about typical disruptions in your organisation. Are some types more frequent than others?

- **Key material groups**
  Identify the risks most likely to affect your top 10 strategic material groups and focus on them first.

Key Success Factors

- **Don't overstretch your organisation** – focus on strategic spend categories first and then slowly increase your reach.

- **Integrate risk management into core procurement, NPI and quality processes**, such as supplier selection, contracting and demand management, to make it sustainable.

- **Co-ordinate and communicate within your organisation** – elements of risk management are usually present on the operative level – often you just need to gather and promote the best practices.

Ideas for focus areas

Corporate strategy

Cost of prevention

Commodities

Priority Risks & Suppliers

Cost of monitoring

Supplier location (geopolitics)

Likelihood / Impact

Feasibility limits

Take the long view – plan ahead

SCRM implementations often fail because of the tendency to treat it as a one-off project. It is not! **The key to success lies in making SCRM a sustainable part of your organisation.**

This involves setting a **development path and creating an organisation with clear responsibilities and enforcement rights**, followed by integration of risk management into core purchasing processes in your company.

Don't expect immediate results – these projects take months and years of hard work to yield results. In the end, you need to ensure that the decision-makers take risk into consideration when they evaluate their options. Short term savings may not always be the best policy.

KEY RESULTS

List of key categories and focal risks, Implementation timeline and project plan

KEY RESULTS

Resources and processes in place. Clear responsibilities.

KEY RESULTS

Risk audits of key suppliers, self-reports for the rest.

supplier development
 risk mitigation strategies, supplier development

communication
continuous flow of information in supply chain

transparency
identify supplier risks & evaluate impact

create an organisation and define processes

set priorities and targets for risk management

KEY RESULTS

Communication platform, sharing of information on risk with 2nd & 3rd tier suppliers.

KEY RESULTS

Improvement measures set and monitored. Common risk mgmt. standards across the supply chain.

steps in a typical SCRM implementation process

Key processes

- **Supplier sourcing & selection**
  Evaluate risks at supplier selection and calculate the trade-off between lower price and increased risk.

- **Reporting**
  Spread the word about your actions: select the right target groups and frequency of communication

- **Enforcing compliance**
  Design the right mix of rewards and punishments for suppliers. Ignoring non-compliance or "special exemptions" will lead to failure.

- **Escalation rules**
  Make sure you have defined clear escalation rules for disagreements and raising "disruption alarms".

Organisation: Headquarters

- **Standardisation**
  Design evaluation, mitigation and reporting methodologies, spread best practices throughout the organisation

- **Co-ordination**
  Defining responsibilities, co-ordinated emergency response, avoid rework.

- **Communication & Reporting**
  Global reports & benchmarks, central supplier blacklist.

Organisation: Subsidiaries

- **Evaluation & development**
  Performing supplier & risk evaluation (e.g. audits), supplier development

- **Monitoring the market**
  Identifying potential new supply risks.

Although all risks require individual attention, **classifying risks can help your organisation deal with them more efficiently** and concentrate resources on more complicated cases.

It's considered good practice to prepare basic response plans for each type of risk; they will serve as a supporting checklist for your employees.

Thunderbolt and Snowball risks

„THUNDERSTRIKE" RISKS

Hard to predict risks that usually cannot be stopped once they occur.

They include natural disasters, accidents, strikes. Prevention is costly (either insurance or avoiding certain suppliers), so your best option is fast reaction!

- **Check for susceptibility**
  Are your suppliers actually located in areas prone to natural disasters? Are they prone to legislation changes, etc?

- **External risk index providers**
  Get a subscription to external risk data providers that scour open an proprietary sources and send risk event warnings. Try out our partner riskmethods.net

- **Check response plans and their quality**
  Ask your suppliers for up-to-date and workable business continuity plans. Do you have your own plans in place?

- **Quick data access in case of emergency**
  Do you at least have a central repository of contact persons and their contact details? Do you have a list of alternative suppliers? If not, others will contract out their capacity before you!

- **Share the bad news**
  Not all of your suppliers have your resources! Share risk event news to help them react faster.

„SNOWBALL" RISKS

Risk resulting from a chain of events that, if detected early enough, can be stopped or at least partially mitigated.

These include non only the „staple" quality issues and insolvency, but also insufficient production capacity

- **Determine the Early Warning Indicators**
  OTDs and PPMs can be a proxy for long-term quality issues; Suppliers with few large clients are morel likely suffer from financial instability.

- **Ask your own staff**
  Open communication channels between shop-floor staff and category managers. Don't wait for external data providers – if it's in the news, you have already failed!

- **Monitor and act to prevent risks**
  Perform regular checks and audits. Trend changes are better indicators of problems that actual point values.

- **Hierarchy and weak signals**
  Direct drill down reporting for managers can help identify weak risks signals that can otherwise be filtered out by lower ranks of employees.

- **Set binding rules**
  It's easy to ignore these risks and select suppliers that are cheaper or more convenient. Set and communicate clear rules and "red lines"

Early warning system

A stitch in time saves nine. The problem is that everybody is so busy with their daily work that they don't have time to notice the small rips, let alone stich them.

Thinking about fuzzy, potential risk concepts is always pushed away by day-to-day operations.

Here's where **global risk monitoring teams** and **dedicated software** come in handy. KPIs will not replace good old-fashioned vigilance, but an automated nudge now and then might just be tipping point to prevent some nasty surprises from materialising.

DON'T MAKE PEOPLE FETCH THEIR DATA

People are lazy. People are busy. Whichever view you subscribe to, the result is the same: you need to make the risk data as easily available as possible

- **Automatic warnings**
  Don't wait for the monthly reports. Let your staff pick their own KPI warning thresholds and have a system send them instant notifications

- **Don't forget to De-escalate!**
  If you cry wolf too often, the message will lose its edge. De-escalate issues as soon as possible. Too many red flags will leave your people blind.

- **Easily accessible dashboards**
  ERP systems and their business intelligence modules are great. But they're too complex and too expensive to be of everyday use. Create simple dashboards accessible for all to see.

WARN SUPPLIERS

The fact that you heard about a problem does not mean that others have, too. Don't wait, spread the news.

- **Ask your suppliers to validate if they are affected**
  Ask about the severity of the issue, about their action plan and if they need your help.

WHERE DO I GET THE DATA FROM?

- **External risk index providers**
  Get a subscription to external risk data providers that scour open an proprietary sources and send risk event warnings.

  Global index providers: Maplecroft, Germanwatch Global Climate Risk Index, British Geological Survey risk index for chemical elements, Transparency International Corruption Perception Index, AON Risk Map

  Supplier-specific information: riskmethods.net, US Government Consolidated Screening List API, Dun & Bradstreet, RapidRatings, CapitalIQ, Arvato infoscore, Serasa Experian

  Sustainability source: PSCI (Pharmaceutical Supply Chain Initiative), GeSI (Global e-Sustainability Initiative), ecovadis, Fair Labour Association, Sedex

- **Google Alerts**
  Free supplier risk info source. Let Google scour the news and send you weekly digests per supplier.

- **Internal feedback**
  Create communication channels between shop-floor people and category managers.

- **Supplier self-assessments**
  A lot of useful data can be gathered from suppliers themselves. Just make sure to (a) perform random validation checks (b) give supplier benchmarking feedback on the data they send you

Birds-eye view required

In the initial stages of the SCRM roll-out, you will naturally focus on your direct suppliers.

Half of your success lies in ensuring that all the relevant supplier-related information is stored in a way that allows fast access. As a positive side-effect – the same set of information will improve you negotiating position during the next supplier meeting.

As your risk management organisation matures, your focus will shift towards further supplier tiers.
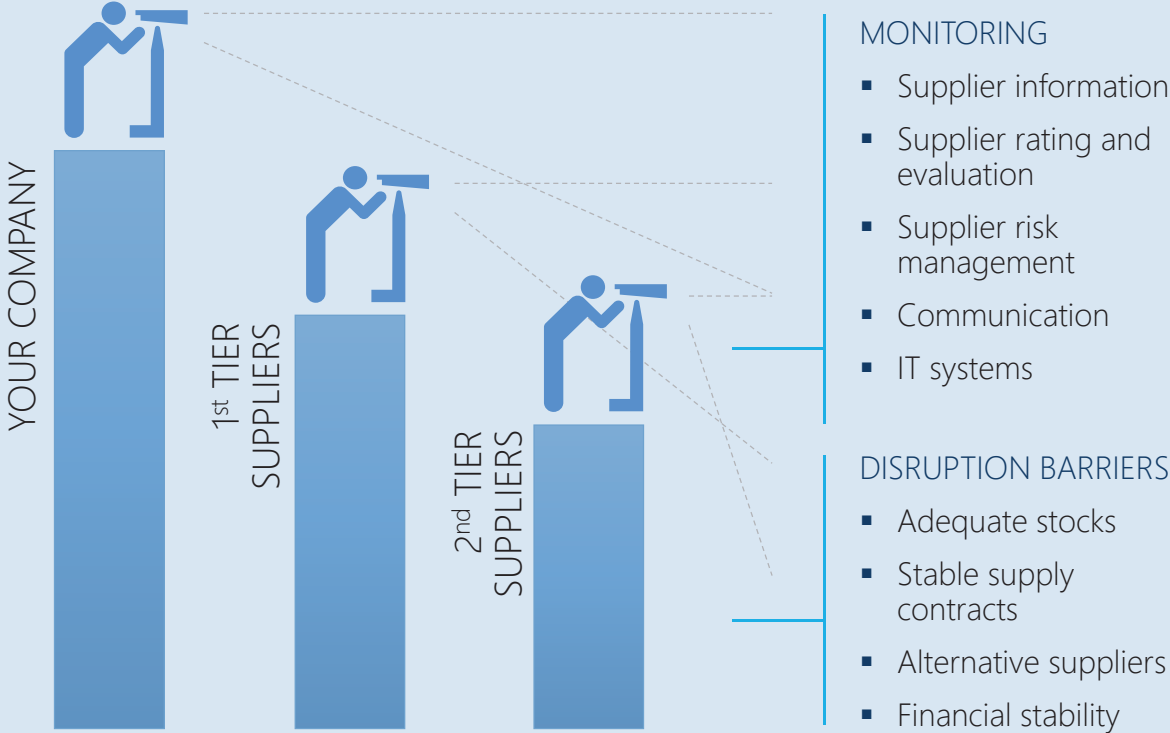
The higher upstream and the smaller the supplier, the less resilient it is likely to be. Increased transparency of the supply chain will help you react faster to possible disruptions.

SUPPLIER DOSSIER

SUPPLIER CLASSIFICATION
General supplier classification (strategic / bottleneck / etc.), quality & innovation clusters

BASIC / CONTACT DATA
Address & key contact persons on both supplier and client side.

SUPPLIER STRATEGY
Summary of supplier strategy based on supplier and category portfolio strategy

CONTRACT INFORMATION
Information about current and planned contracts. Contract-related action plan.

DEVELOPMENT TARGETS
Development action plan incl. milestones & deadlines.

MARKET RESEARCH INFO
Summary of market research regarding the supplier, the industry sector and competitors.

AUDITS & KPIs
Results of the last audit, qualitative evaluation, performance & quality KPIs

SAVINGS & SPEND DATA
Summary of supplier development spend and information about all savings initiatives.

As your SCRM organisation matures, you need to increase your supply chain reach to compensate for the lower disruption defences of upstream suppliers.

YOUR COMPANY

1st TIER SUPPLIERS

2nd TIER SUPPLIERS

MONITORING
- Supplier information
- Supplier rating and evaluation
- Supplier risk management
- Communication
- IT systems

DISRUPTION BARRIERS
- Adequate stocks
- Stable supply contracts
- Alternative suppliers
- Financial stability

Empower your suppliers

The **ultimate aim of SCRM** and supplier evaluation is not mere reporting, but rather the **improvement of your suppliers' capabilities, so that they can better cope with future challenges**.

Remember that you should also **teach your suppliers how to deal with supply chain risks** – the more they do, the safer your organisation. **So, don't just audit your suppliers, offer them SCRM training!**

Talk to your suppliers about your future expectations, so that they have time to adjust and Improve: be it capacity, quality, or innovation

SUPPLIER COMMUNICATION

- **Indicate performance**
  Give suppliers feedback on their performance and on how they measure up to their peers.

- **Discuss expectations**
  Tell your suppliers exactly what you expect from them, now and in the future.

- **Share risk information**
  Share information on raw material prices & availability or supply disruptions. Encourage the suppliers to do the same.

- **Reward co-operation**
  Punish underperforming suppliers, but ... be lenient to those who inform you about potential problems. Make rewards part of your policy (e.g. extra points during tenders, etc.)

SHARE YOUR DATA WITH YOUR SUPPLIERS

- **Set aside your "guard dog" mentality**
  Do you stash supplier performance data in secret and God forbid that the suppliers should see any of it?
  Share it! Have them see if you are happy or unhappy with them.

- **Are you afraid of the quality of your data?**
  Your nightmares might come true. But if your suppliers are right to correct you, thank them! You don't want to make decisions based on wrong data.

SUPPLIER DEVELOPMENT

- **Create development teams**
  Don't wait for a risk to materialise to search for the right people to deal with it.

- **Classify your suppliers**
  Prioritise supplies that need your support most

- **Use several classifications**
  Separate for quality, capacity, innovation, sustainability, operations. Co-ordinate between task groups to not to overwhelm suppliers!

- **Audits should always have consequences.**
  If they don't – stop wasting everybody's time: stop auditing or redesign the questions.

- **Set realistic development tasks**
  When you audit, focus on issues that you or your supplier could realistically control. Identify practical and pragmatic improvement measures, always based on a cost-benefit-analysis, never "automatic".

- **Share your risk management know-how**
  Invite your suppliers to risk-management training sessions. Create guidelines for standard risk management processes and give them to your suppliers.

- **Encourage the suppliers to develop their own supply base** in the same fashion you developed them.

Sniff out best practices

It's always best to learn on somebody else's mistakes, or – event better – somebody else's successes.

We're happy to showcase a client of ours, US-based **AGCO Corporation**, one of the leading manufacturers of agricultural equipment. (You might be more familiar with their brands: Challenger, Fendt, GSI, Massey Ferguson and Valtra)

Over the last 5 years the company embarked on a massive project to transform their supply chain, enabling global commodity managers and buyers to pool experiences and activities and make decisions based on greater visibility into supplier performance and risks. All supported by our supplier management software, internally known as APEX.

BME "Excellence in eSolutions"
Award for AGCO Corporation
Case study

AGCO's turnaround and holistic focus on risk was rewarded by the leading German trade association BME. Every year they give only one eSolution Award

GLOBAL SUPPLIER VISIBILITY

- Normalisation of all local ERP supplier IDs into a single global ID for over 6000 suppliers
- Covers distributors and multi-tier supply chains
- Global PPM score calculations based on category & plant targets
- Documents/Certificates/Contracts with automatic reminders

SUPPLIER RISK

- Purchasing and quality audits, incl. pre-qualifications
- Integrated riskmethods and Dun & Bradstreet risk scores
- Documentation of supplier approval for individual plants and commodities

SAVINGS

- Global tracking of all supply-chain related savings initiatives across projects and programs, integrated with supplier profiles.
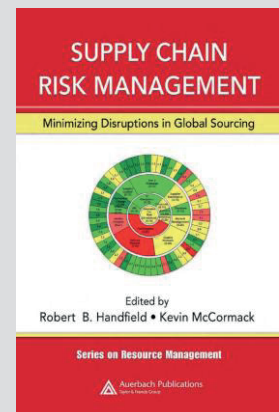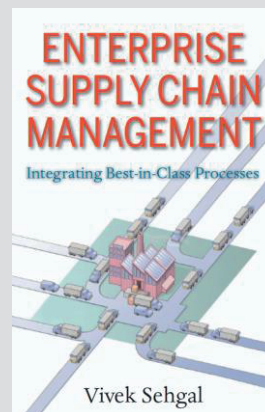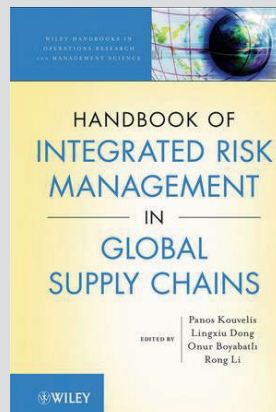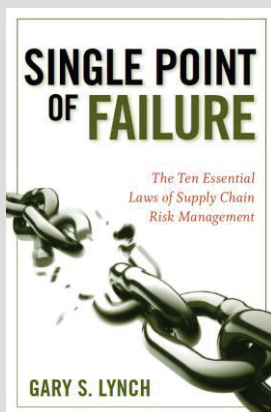
SUPPLIER COMMUNICATION

- Direct access for suppliers, incl. results & performance
- Development tasks
- Global supplier contact list
- Targeted mass-mailing
- Over 250.000 notification emails per year

PROCUREMENT AND QUALITY HAND-IN-HAND

- Over 1.000 Buyers and Supplier Quality Engineers have access to full supplier profiles and performance
- Global multi-BU NCR reports, synchronised with ERP systems
- Full support for the New Product Introduction process with over 11.000 PPAP reports and over 50.000 documents per year, synchronised live with several ERP systems.

Looking for more inspiration?
Check our these books on Supply Chain Risk Management

Meercat® Software Suite
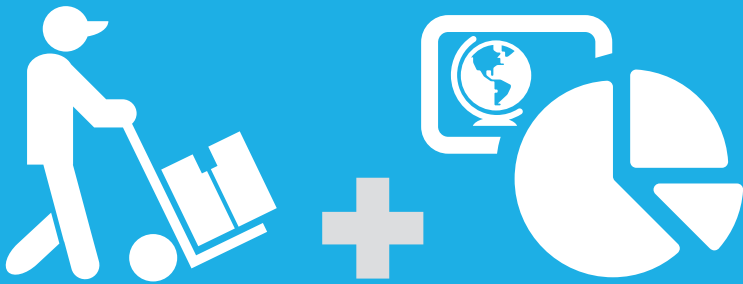
Supplier Management Assessment, Development & Communication

Supplier Risk Management

Savings Reporting

NEW! Commodity Profiles

NCR/8D Reports

Global Part Approval Process

Tool Database

Supply Chain Project Resource Management

Incidents and warnings

NEW! iOS & Android apps

Procurence Meercat® is an award-winning suite of tactical and strategic tools that support the communication between procurement, quality and supply chain stakeholders.

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Know your suppliers

- Supplier self-registration
- Master data management
- Extended profiles
- Contract & document mgt.
- Tool management

Flexible reports

- Add new KPIs
- Instantly create own dashboards
- Sync automatically & upload via Microsoft® Excel™

Supplier risk

- Supplier development
- Integration with Dun & Bradstreet and riskmethods
- Import KPIs from ERPs

Savings Programs

- Savings initiative reporting
- Flexible Confidence levels, levers and calculation methods

Interface to Quality / R&D

- Non-Compliance Reports
- Global target-based PPM scores
- Category approval status
- Supplier damages
- PPAP and New Product Introduction support

Flexible assessments

- Self-assessments
- Pre-approval
- Conflict minerals
- Supplier Award Schemes
- Automotive MMOG™ audits
- Customer satisfaction

Meercat® is the only supplier management software that supports both line production and project-based organisations

Resource profiles

- Quickly find technicians based on job profile, skills, certificates and availability!
- Flexible list of all certificates, training, skills, etc.
- Automatically stop technicians with expired certificates

Project profiles

- Key Accounts / Teams
- Documents & Photos
- Contracts
- Discussion board
- Non-compliance reports (8D/NCR)

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