

PLAN for Supplier Risk Management: An Agile Framework for Supplier Risk Mitigation





Introduction

Organizations have kicked off 2023 with robust planning and strategizing to build resilient procurement programs. Amidst this planning, organizations tend to overlook the revision of their supplier risk management (SRM) strategies. According to a report by Gartner, **89%** of organizations experienced a supplier risk event in the last 5 years.¹

Supplier Risk Management has become all the more important with the rise in the need for ESG compliance across the globe.

It is important to ensure that all aspects of your organization's operations are functioning efficiently and with maximum compliance. One way that businesses can help protect their assets and interests from potential supplier risk is by implementing a robust supplier risk assessment process. By understanding the different types of risks associated with suppliers, organizations can gain an increased level of control over their supply chain processes and more effectively manage any threats or disruptions they may potentially face in the future.

This whitepaper explores why organizations should be actively assessing supplier risk and how such assessments can impact an organization's overall compliance posture.

¹Gartner's "Supply Chain Risk Management Increase supply chain risk readiness to combat market disruption"

Need for Supplier Risk Management

An organization needs to assess supplier risk for several reasons, including:

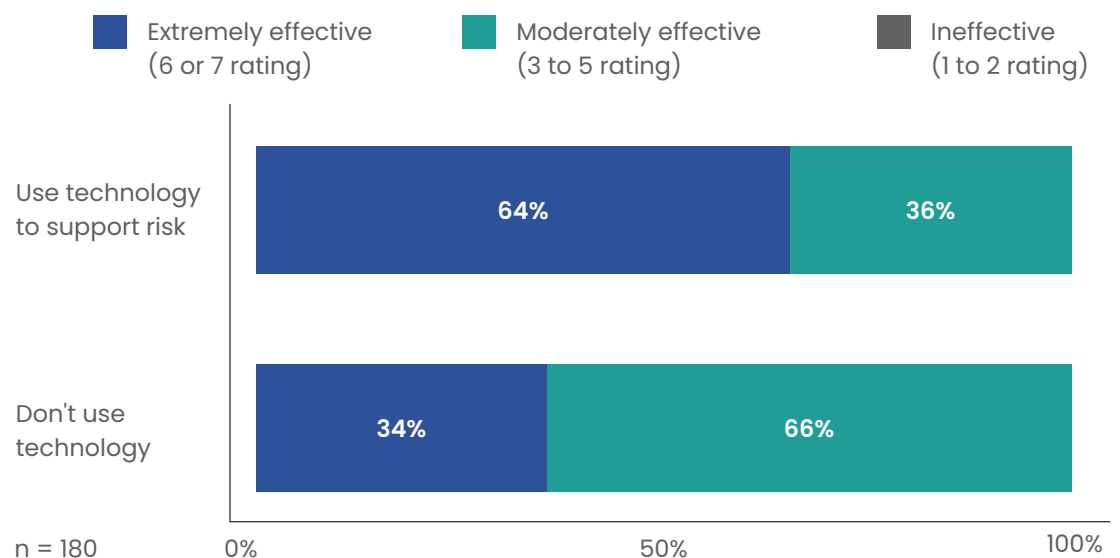
- **Continuity of Operations:** Suppliers are essential to an organization's operations, and any disruption in the supply chain can affect an organization's ability to deliver products or services to its customers. By assessing supplier risk, an organization can identify potential risks and take proactive measures to mitigate them, ensuring continuity of operations.
- **Reputation and Compliance:** An organization's reputation can be negatively impacted if its suppliers engage in unethical or illegal practices. By assessing supplier risk, an organization can identify suppliers who may pose a reputational risk and take steps to address any issues. Moreover, many industries are subject to regulations and laws that require suppliers to comply with certain standards. By assessing supplier risk, an organization can ensure its suppliers are meeting these standards, avoiding any potential legal or financial repercussions.
- **Cost Management:** A supplier's financial instability or lack of compliance with regulations can result in additional costs for an organization. By assessing supplier risk, an organization can identify potential cost drivers and take steps to mitigate them.
- **Strategic Planning:** Assessing supplier risk can also help an organization make strategic decisions regarding its supply chain. By understanding the risks associated with different suppliers, an organization can make informed decisions about which suppliers to work with and how to manage the relationship.

Framework to Plan a Supplier Risk Assessment Strategy

As per a Gartner report , a low percentage of companies have a defined risk appetite and monitoring process, however, **81%** of companies have a formal risk committee that monitors and guides responses to risk events. According to the same survey, technology has proven to be a catalyst for better risk management, regardless of risk appetite. ²

Fig. 1

Statistics for Efficacy of Current supplier Risk Tactics



Source: Gartner

Risk management effectiveness must follow in the assessment, monitoring and exploitation of risk, so we use technology as risks evolve and new risks emerge that increase in complexity, impact and velocity. Companies that use technology to manage risk nearly double their effectiveness using vendor risk tactics.

For organizations to leverage technology to the fullest, organizations need a framework for Supplier Risk Management.

²Gartner Insights' "Increase Supply Chain Risk Awareness: Prioritize, continuously assess and govern supply chain risk"

Fig. 2

Comprehensive Supplier Risk Mitigation Framework³



Source: Zycus

■ Assessing Existing Suppliers

When assessing existing suppliers, it's essential to take a thorough and systematic approach to ensure that you're gathering accurate and relevant information. This involves gathering data on the supplier's financial health, legal and regulatory compliance, and reputation and brand image. You can obtain this information through a variety of methods, such as conducting surveys or assessments, reviewing financial data, and analyzing supplier performance metrics.

According to a report by Deloitte, a comprehensive supplier risk assessment should include evaluating factors such as financial stability, operational risks, legal and regulatory compliance, supplier capacity, and reputation and brand image.⁴ For example, assessing a supplier's financial stability can involve reviewing their credit ratings, financial statements, and payment history. Evaluating legal and regulatory compliance can involve reviewing their compliance with laws and regulations such as labor laws, environmental regulations, and data protection laws. Organizations can identify potential risks and take proactive measures to mitigate them by conducting a comprehensive assessment of existing suppliers.

³Source: Zycus Inc.

⁴Deloitte. "Global CPO Survey 2021." Deloitte, 2021.

■ Supplier performance management

Supplier performance management is critical in ensuring that your suppliers are meeting your organization's requirements and expectations. This involves monitoring supplier performance metrics, conducting regular reviews, and providing feedback to suppliers on how they can improve. Effective supplier performance management can help organizations to identify opportunities for cost savings, improve supplier relationships, and reduce supplier-related risks.

According to a report by Gartner, organizations that implement effective supplier performance management programs can achieve cost savings of up to 8%.⁵ Organizations should establish clear performance metrics and set performance targets for their suppliers to achieve these savings. They should also conduct regular reviews of supplier performance and provide feedback to suppliers on how they can improve.

This can involve implementing continuous improvement programs, conducting joint process improvement initiatives, and providing training and development opportunities to suppliers. By managing supplier performance effectively, organizations can improve their supply chain performance and reduce supplier-related risks.

■ Supplier segmentation

Segmenting suppliers based on their importance and risk profile can help organizations prioritize their supplier risk management efforts. According to a report by Gartner, supplier segmentation is one of the top three strategies used by procurement leaders to manage supplier risks. The report also indicates that organizations that use supplier segmentation are more effective at managing supplier risks than those that do not. By segmenting suppliers, organizations can identify critical suppliers that require a more comprehensive risk management program, and allocate resources accordingly. This helps ensure that resources are utilized efficiently and that the most important risks are addressed first.⁶ **High-risk suppliers should receive more frequent assessments and monitoring than low-risk suppliers.**

Supplier segmentation is a crucial part of supplier risk management as it involves categorizing suppliers based on their importance to the organization and the potential risks associated with their operations.

⁵Gartner's "The Top 10 Priorities for Sourcing & Procurement Leaders"

⁶Gartner. "3 Strategies for Managing Supplier Risk."

By segmenting suppliers, organizations can develop more targeted risk management strategies and prioritize their efforts based on the risks associated with each supplier group. According to research, organizations that use supplier segmentation are better equipped to identify and address high-risk suppliers and have higher supplier performance scores than those that do not.

■ **Supplier development program – SCAR (Supplier Corrective Action Request)**

Supplier risk management is crucial for procurement and supply chain professionals to ensure that their suppliers meet their business needs while minimizing risks. **One effective way to manage supplier risk is through implementing a supplier development program that includes Supplier Corrective Action Requests (SCAR). SCAR is a formal request for suppliers to take corrective actions when they fail to meet the buyer's requirements or specifications. This approach can help improve supplier performance, product quality, and customer satisfaction.**

According to a study by ProcureAbility, **79%** of procurement professionals said that their organizations use corrective action programs to improve supplier performance. Furthermore, **70%** of the respondents stated that these programs help their suppliers become more reliable and reduce quality issues.⁷

■ **Supplier Integrations**

Another key aspect of supplier risk management is supplier integrations. Supplier integrations are essential for streamlining processes and improving communication between buyers and suppliers. Integrations allow suppliers to exchange data with the buyer's systems, which can help reduce manual processes and errors.

According to a report by Deloitte, **79%** of procurement professionals believe that integrating supplier data into their systems can help improve supplier performance. Furthermore, **62%** of procurement professionals reported that integrating supplier data can improve the accuracy and completeness of supplier information.⁸ **By integrating suppliers into the procurement process, organizations can improve supplier performance, reduce costs, and increase efficiency. Overall, supplier integrations can help create a more transparent and collaborative relationship between buyers and suppliers, leading to better business outcomes.**

⁷ProcureAbility. 2019 CAPA Study

⁸Deloitte's Supplier Integration Insights

■ Development of Supplier Risk assessment programs

Supplier risk assessment programs are a critical component of a comprehensive supplier risk management framework. These programs enable organizations to identify and evaluate potential risks associated with their suppliers, and develop mitigation strategies to reduce their exposure to these risks.

According to a study by Spend Matters, **67%** of procurement professionals reported that they use supplier risk assessment programs to manage supplier risks. Additionally, **85%** of these professionals reported that these programs have helped them identify and mitigate supplier risks effectively.⁹

By implementing supplier risk assessment programs, organizations can take a proactive approach to risk management, ensuring that they are well-prepared to address potential risks and minimize their impact on the business.

■ Monitoring Automated Alerts

Monitoring automated alerts is another key aspect of supplier risk management. Automated alerts are notifications that are triggered when certain predefined conditions or events occur, such as a change in supplier financial stability or a security breach. By setting up automated alerts, organizations can receive timely notifications of potential supplier risks, enabling them to take immediate action to mitigate these risks.

According to a report by Gartner, **79%** of organizations that use supplier risk management tools use automated alerts to monitor supplier risks. Additionally, **73%** of these organizations reported that automated alerts have helped them identify and respond to supplier risks more quickly.¹⁰ By using automated alerts to monitor supplier risks, organizations can reduce their exposure to risks and improve their ability to respond to potential disruptions.

⁹Spend Matters "10 years of SRM Trends"

¹⁰Gartner's "Supplier Risk Management Guide"

■ Staying updated on risk trends globally and internally

In order to effectively manage supplier risks, it is essential for procurement and supply chain professionals to stay updated on risk trends both globally and internally. By staying up-to-date on the latest risks and emerging trends in the market, organizations can better anticipate potential disruptions and take proactive measures to mitigate them.

According to a report by Aberdeen, **66%** of procurement professionals reported that they have a formal process in place for tracking and monitoring supply chain risks. Additionally, **52%** of these professionals reported that their organizations use external sources of information, such as news and market reports, to stay updated on supplier risks.¹¹ By leveraging external sources of information and staying abreast of the latest trends in the market, organizations can gain a more comprehensive understanding of the risks associated with their suppliers and develop effective strategies to manage these risks.

In addition to monitoring external sources of information, it is also important for organizations to stay updated on internal risk trends. This includes tracking key performance indicators (KPIs) and conducting regular risk assessments to identify potential gaps in supplier risk management. According to a study by Ardent Partners, **62%** of procurement professionals reported that they use KPIs to track supplier performance and identify potential risks. Additionally, **63%** of these professionals reported that they conduct regular risk assessments to evaluate supplier risks.¹²

¹¹Aberdeen Report on Supplier Risk Management

¹²Ardent Partners' Supplier Risk Management Study

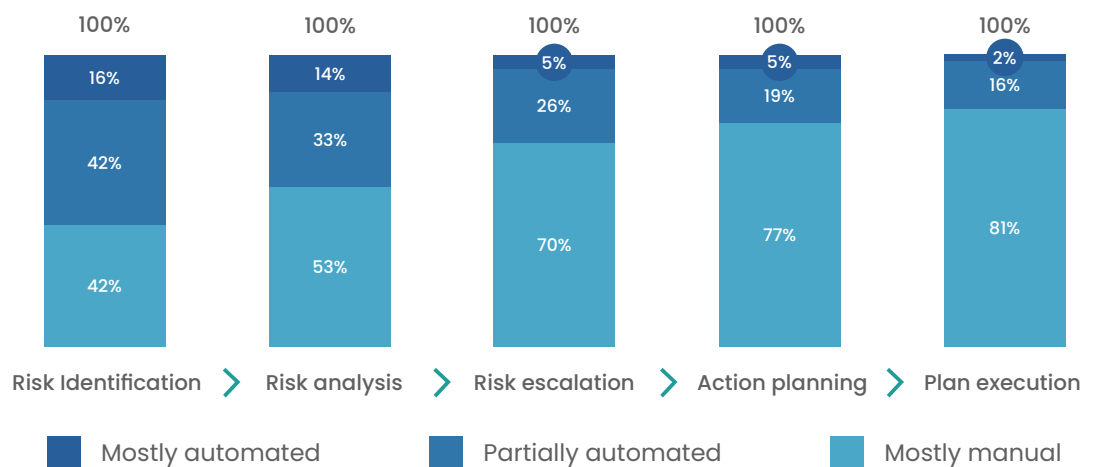
Case Study

According to Kearney's Risk Management Report, a lot of organizations are now investing in risk management solutions to attain additional data sources and identify risks.¹³ It has helped organizations realize the need for a comprehensive solution to integrate their existing systems with an end-to-end risk management process.

Fig. 3

What are organizations looking for when they invest in SRM technology¹⁴

Technology deployment in supplier risk management is largely aimed at identifying risks and attaining additional data sources (% of respondents)



Source: Kearney's "Five Crucial Components of Supplier Risk Management", 2021

The following is a recent example from a Leading Relocation Service Provider who collaborated with Zycus to transform its source-to-contract journey & its Supplier risk management processes.

¹³Kearney's "Five Crucial Components of Supplier Risk management"

¹⁴Kearney Risk Management Survey, 2021

■ About the Company

The company is a global leader in moving and relocation services, offering solutions for mobility programs to companies of every size.

■ The Need for Digital Transformation

The client expanded its business rapidly with numerous mergers and acquisitions, which resulted in decentralized process management, fragmented data sources, multiple ERPs, and scattered sourcing systems across several business units. Thus, to manage procurement processes efficiently, there was a need for a centralized platform that could integrate all fragmented modules and provide visibility and valuable insights about data through customized dashboards.

Fig. 4

Procurement Challenges Faced by the Relocation Service Provider¹⁵



Scattered
sourcing system



Manual
processes



Supplier profile
integration

Source: Zycus

¹⁵ A Leading Relocation Service Provider Collaborates with Zycus to Transform its Source-to-Contract Journey.
Source: Zycus Inc.

■ Existing Procurement Landscape

The client's earlier Source-to-Contract (S2C) process heavily relied upon manual tasks, which resulted in a high cycle time for conducting sourcing activities and having enterprise-level visibility into supplier information. In addition to this, they did not have a centralized repository to store and track contracts, which led to a slow turnaround time to create and review contracts. The client also struggled with longer contract approval time due to the absence of standardized version control solutions to track contract changes and clauses at each negotiation stage with suppliers.

Fig. 5

Business Object of the Relocation Service Provider¹⁶



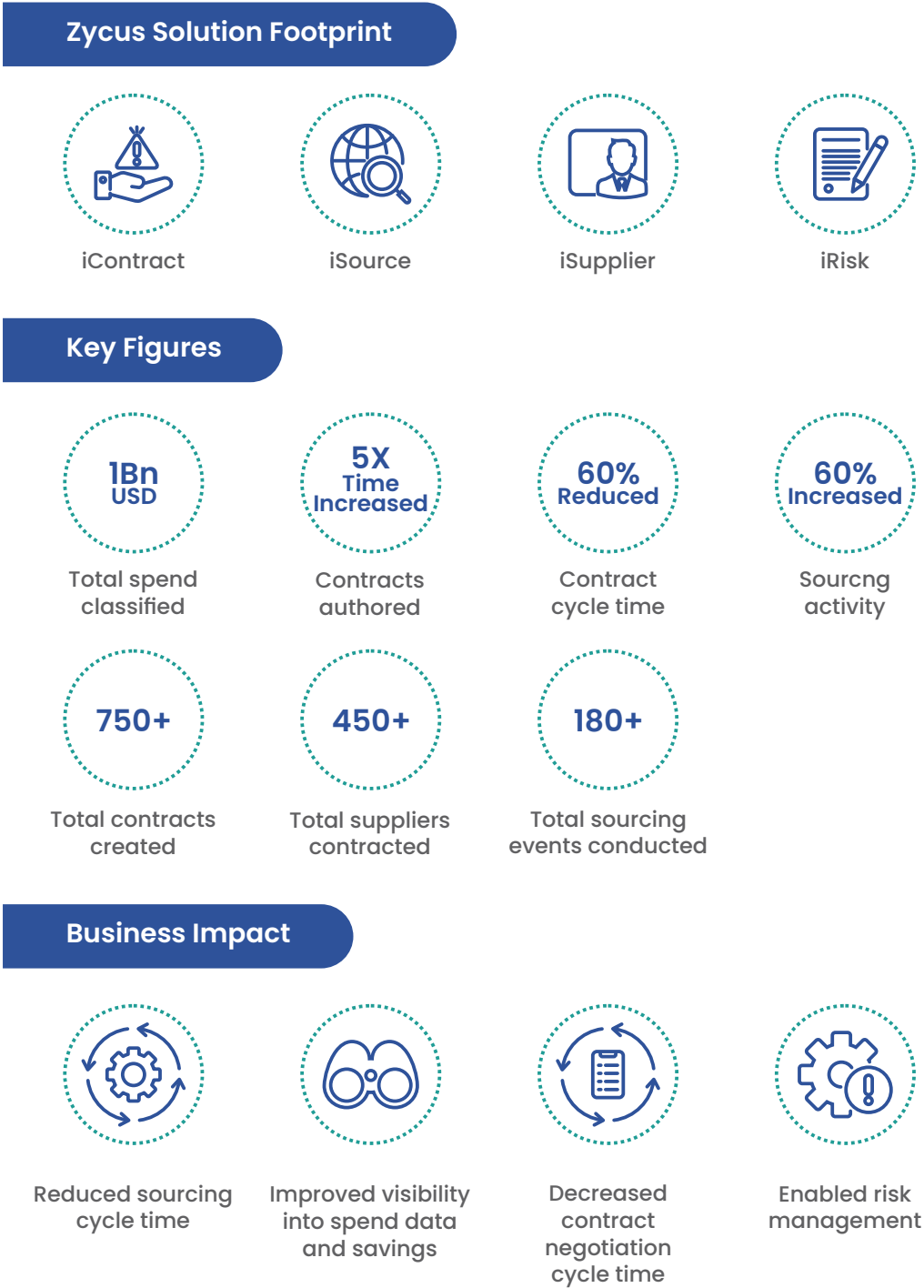
Source: Zycus

¹⁶ A Leading Relocation Service Provider Collaborates with Zycus to Transform its Source-to-Contract Journey. Source: Zycus Inc.

■ Why Zycus?

The company decided to move forward with Zycus' integrated suite based on its ease of use. A simple and customized user experience (UX) provided by Zycus' Dew Drop UI was one of the driving factors as the client aimed for a high user adoption.

Solutions adopted, Key Statistics and Final business impact after implementing Zycus' Solutions¹⁷



Source: Zycus

¹⁷A Leading Relocation Service Provider Collaborates with Zycus to Transform its Source-to-Contract Journey. Source: Zycus Inc.

Conclusion

There you have it: an 8-step framework to reduce supplier risk and increase performance. Supplier risk management isn't always top of mind when running a business, but it is a quintessential parameter for achieving success. By regularly tracking KPIs and conducting risk assessments, organizations can gain a better understanding of their supplier risk landscape, and take proactive measures to address any potential vulnerabilities or gaps in their risk management program. This can help organizations ensure that they are well-prepared to address supplier risks, and minimize their impact on the business. Investing the necessary time in developing such a plan is worth it!

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Zycus powers its S2P software with the revolutionary Merlin AI Suite. Merlin AI takes over the tactical tasks and empowers procurement and AP officers to focus on strategic projects; offers data-driven actionable insights for quicker and smarter decisions, and its conversational AI offers a B2C type user-experience to the end-users.

Zycus helps enterprises drive real savings, reduce risks, and boost compliance, and its seamless, intuitive, and easy-to-use user interface ensures high adoption and value across the organization.

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