

7 Key Considerations to More Effective Supplier Risk Management



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Choosing the Right SRM Tool: 7 Essential Features Unveiled!

Executive Summary

- Effective supplier risk management is crucial for organizations to identify potential events that could negatively affect their supply chain. In the part 1 of this series, we understood the nine steps framework that aid in managing supply risk throughout the sourcing lifecycle, including ongoing monitoring and management of supplier relationships
- After completing the 9-step program for identifying and managing risks, it's time to move on to Phase 1 of your organization's Risk Management program. In Phase 2, the focus is on implementing these steps by understand the **7 key considerations for ensuring a high level of risk management** practices and processes
- The second and the final part of the eBook series identifies the 7 key considerations that are strategic for procurement leaders and professionals to evaluate and mitigate the risk with their supply chains
- As per these 7 strategic key considerations, the later section delves into **how AI is transforming supplier risk management** and what you should look for while buying a supplier risk management tool



Seven Keys to Better Supplier Risk Management

The procurement function's relationships with its suppliers are typically the foundation of how sourcing and supplier risk management programs perform. Effective supplier risk management is critical to ensuring the continuity and resilience of your supply chain. With a complex and interconnected global supply chain, identifying and mitigating potential risks can be a challenging task. Fig. 2 shows 7 key considerations that are critical for procurement and sourcing professionals who need to evaluate and mitigate risks associated with their supply chains.

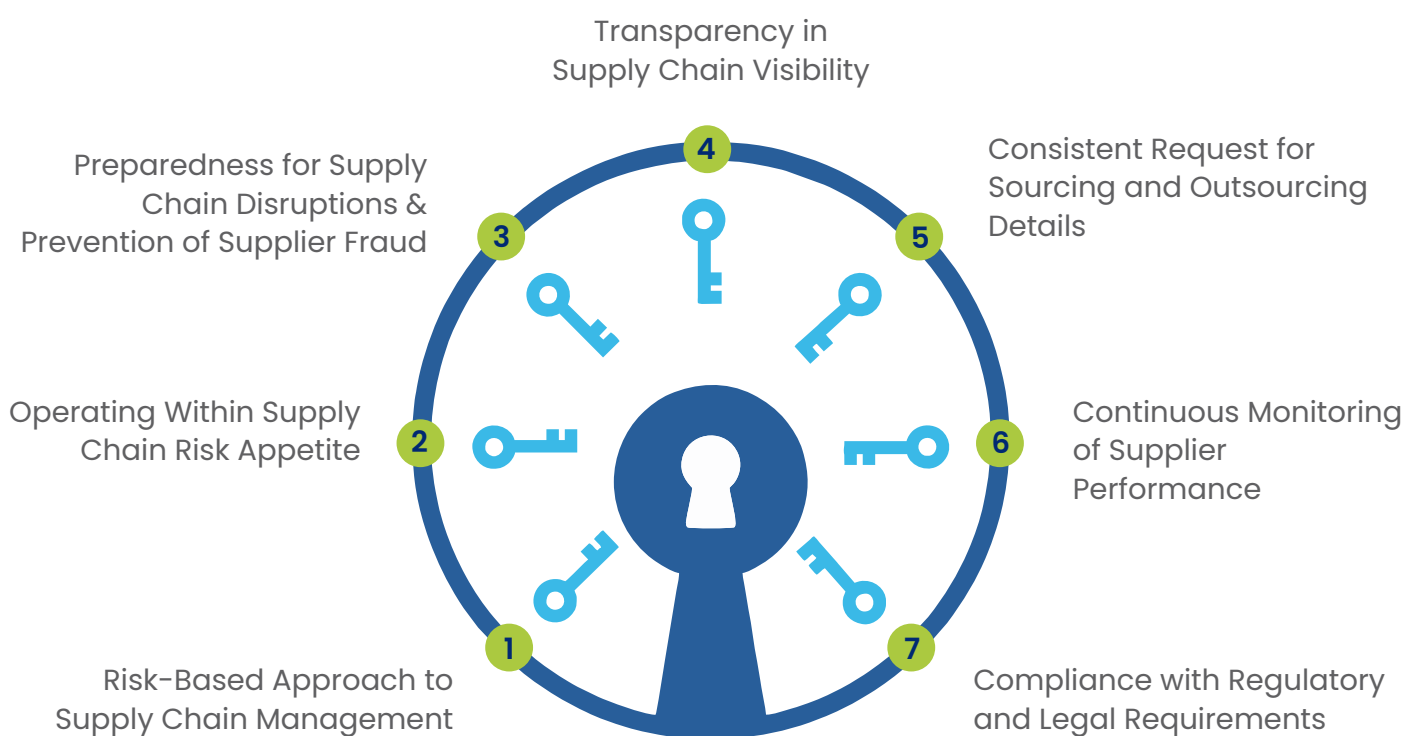


Fig. 2: 7 Key considerations

1

Transparency in Supply Chain Visibility: Lack of visibility into all stages and suppliers in your supply chain can lead to unknown vulnerabilities.

2

Consistent Request for Sourcing and Outsourcing Details: Requesting suppliers to provide details of their own sourcing and outsourcing arrangements helps to identify potential risks and dependencies in the supply chain.

3

Continuous Monitoring of Supplier Performance: Regular monitoring of supplier performance and risk can help organisations be proactive.

4

Compliance with Regulatory and Legal Requirements: Ensuring compliance with relevant regulatory and legal requirements in your supply chain is essential for avoiding legal and financial penalties.

5

Risk-Based Approach to Supply Chain Management: A risk-based approach to managing supply chain risk enables organizations to prioritize and focus their resources on the most significant risks.

6

Operating Within Supply Chain Risk Appetite: Management should establish and communicate a clear risk appetite for supplier/offshoring/outsourcing risks to ensure that you are operating within acceptable levels of risk.

7

Preparedness for Supply Chain Disruptions & Prevention of Supplier Fraud: Being prepared to respond to any supply chain disruption is essential to ensure business continuity and minimize negative impacts. Taking measures to prevent employee and supplier fraud is crucial to maintain the integrity of your supply chain.



Pitfalls of Legacy Supplier Risk Management Tools

Managing supplier risks has traditionally been a challenging task, involving manual collation of data from various sources such as spreadsheets, emails, and legacy vendor risk tools. However, recent events such as the global pandemic and geopolitical shifts have highlighted the need for a proactive and holistic approach to supplier risk management. As businesses strive for continuity, the shortcomings of traditional systems have become increasingly apparent.

In our recent Supplier Management Performance Survey, 52% of the organizations cited a lack of visibility into supplier performance and risks as a major concern. A lack of supply chain visibility keeps companies exposed to blind risk, leading to huge unwarranted losses and a weakening of competitive advantage. Additionally, 28% of respondents identified silo-based vendor risk assessment as a significant constraint in preventing potential supplier risks.

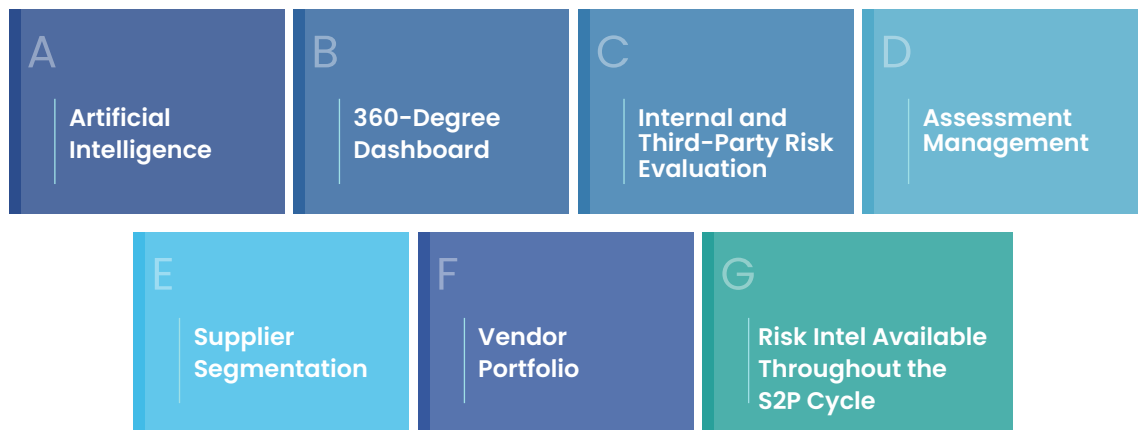
Beyond Spreadsheets: How A.I. is Transforming Supplier Risk Management

An intuitive supplier risk management tool that increases accuracy, transparency, and uses the available data to build comprehensive reports is essential for organizations that want to proactively manage supplier risk. In today's global marketplace, where supply chains have grown increasingly complex and unpredictable, organizations need a tool that provides a continuous and consistent assessment of risks and delivers results quickly so they can plan their supply chain strategies accordingly.

To that end, here are the key features that organizations should look for when selecting a supplier risk management tool:



Key features to look for while selecting your supplier risk management tool



A Artificial Intelligence

The use of AI and machine learning in supplier risk management tools can help organizations identify potential risks and disruptions more accurately and efficiently. AI systems can analyse past data, geographical and political unrest, and other factors to predict potential risks. For example, the Zycus **Merlin Risk Radar** can identify external risks (geographical and political) across a supplier base in an easy-to-consume format, by scanning the internet for news articles on bankruptcy, plant shutdowns, government watch lists, natural calamities in supplier geography, and more.

B 360-Degree Dashboard

A comprehensive dashboard can provide users with a complete overview of the risk evaluation process, supplier scorecards, KPIs, past performance trends, corrective measures, and mitigation programs. This allows users to identify potential issues more easily and take proactive steps to address them.

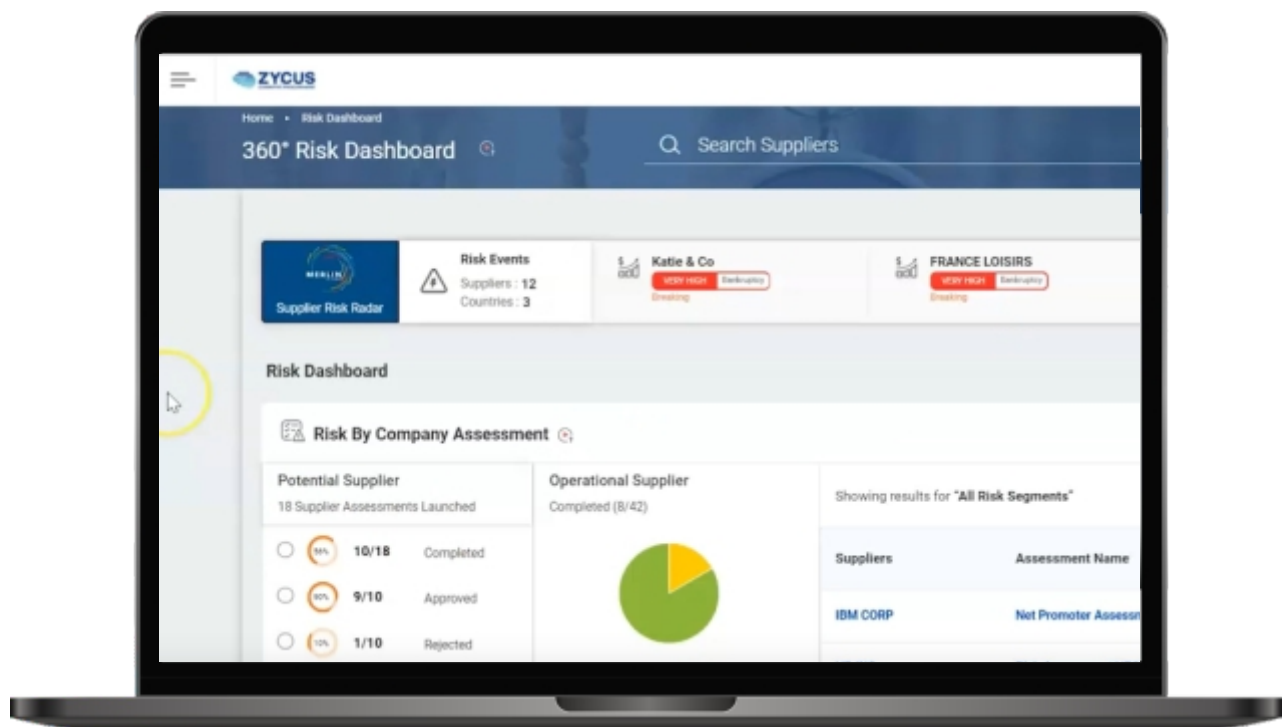
C Internal and Third-Party Risk Evaluation

The tool should take data from internal evaluation modules and third-party risk assessment entities like D&B to present a complete report. This can be made a part of internal evaluation and scoring, giving organizations a more comprehensive view of supplier risk.

D

Assessment Management

A supplier risk management tool should allow users to customize the risk assessment process according to the organization's needs. Once the assessment is launched, the tool should enable required stakeholders to review and ask for additional evaluation through questionnaires. For example, the Zycus **iRisk** module allows users to create customized assessments and track progress easily.



E

Supplier Segmentation

The tool should make it possible to segment suppliers based on various parameters like supplier score, criticality for the organization, geography, financial risk, reputational risk, etc. This allows organizations to focus their attention and resources on the suppliers that pose the greatest risk.

F

Vendor Portfolio

A supplier risk tool should provide a complete supplier profile, including risk evaluation, ongoing development programs, claims and external risk assessments, ongoing business transactions, and more. This allows organizations to have a complete understanding of their suppliers and make informed decisions about risk management.

G

Risk Intel Available Throughout the S2P Cycle

Risk information should be readily available to users throughout the Source-to-Pay process to make informed decisions while choosing suppliers. The iRisk module enables users to overview the supplier risk profile while creating a sourcing event or contract, allowing them to identify potential issues and take steps to mitigate risks.

Conclusion:

Supplier risk management is a critical aspect of supply chain management that demands attention from organizations. As the global business environment becomes increasingly complex, managing supplier relationships and mitigating risks associated with them is more important than ever before. The potential for reputational damage, financial loss, and legal issues arising from poor supplier risk management underscores the importance of implementing a comprehensive framework that can effectively identify, assess, and mitigate risks throughout the sourcing lifecycle. While there are upfront expenses associated with managing supplier risks, the cost of not doing so is far higher. By following the best practices outlined in this eBook series, organizations can build strong supplier relationships, ensure business continuity, and minimize the risk of disruption to their operations.

Zycus is the pioneer in Cognitive Procurement software and has been a trusted partner of choice for large global enterprises for two decades. Zycus has been consistently recognized by Gartner, Forrester, and other analysts for its Source to Pay integrated suite.

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.

Start your #CognitiveProcurement journey with us, as you are #MeantforMore.

