

MANAGING RISK IN YOUR SUPPLY CHAIN

INTRODUCTION

The management of disruptive events in supply chains is a critical concern for firms competing in today's global market. A single disruption occurring in a supply chain can quickly propagate and intensify in impact, with devastating consequences.

In today's competitive environment, a firm's survival is no longer guaranteed by how well it performs, but rather by how well its supply chain performs relative to those of its competitors. This realization has increasingly led firms to charge their supply chain managers with a daunting responsibility — namely that of managing and reducing supply chain risk. To be precise, this responsibility requires supply chain managers to design and sometimes implement contingency plans for responding to supply chain disruptions — unanticipated events that interrupt the flow of materials and the requisite knowledge between entities or nodes within a supply network.

The importance of effective management of disruption risks in the supply chain cannot be overstated. A single supply chain disruption can halt not only the flow of material affecting the tier of the supply chain where the disruption occurs, but also the material flow across the entire supply chain. For example, Boeing had a supplier failure for two critical parts, which led to a loss of \$2.6 billion. In fact, losses may go beyond immediate reductions in profits. In a recent study, it was found that announcements of "supply chain glitches" lead to stock market value losses as large as 10 percent.

THE BASICS

Enablers of effective supply chain risk management depend on people. Firms are recognizing the need to have supply chain managers that are:

- Experienced
- Educated
- Empowered
- Armed with a plan
- Armed with a process

In order to understand the probability of occurrence and the severity of impact of your risks, try using this matrix:

PROBABILITY	VERY HIGH	MANAGE RISK		ACT NOW		
	HIGH	MANAGE RISK		ACT NOW		
	MEDIUM	MONITOR		MANAGE RISK		
	MINOR	MONITOR		MANAGE RISK		
	NONE	MONITOR		MANAGE RISK		
		NONE	MINOR	MEDIUM	SERIOUS	CATASTROPHIC
		IMPACT				

How can you prepare for supply chain risk?

Assemble a cross functional team within your firm.

Ask the following questions:

- What types of risks are you facing? (e.g., inventory, systems, forecast, etc.)
- What is the probability of occurrence and what is the level of severity?
- What drives these risks?

Develop a set of mitigation strategies for your risks.

Make sure you **understand the impact** of your plans.

Remember when assessing a potential impact of a disruption not all risks are equal. Consider:

- The criticality of the affected product flow
- The dependency of the nodes likely to be affected
- The overall complexity of the supply chain