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Risk Angles
Five questions on supply chain risk

An interview with Kelly Marchese, principal, Deloitte Consulting LLP and a closer look by James Cascone, principal, Deloitte & Touche LLP and leader of the Center for the Global Food Value Chain.

From the tsunami in Japan and drought in the U.S. farm belt, to horse meat in Europe and flooding in Thailand, the ripple effects of supply chain risks are being felt around the world. Problems that used to be isolated and manageable can now lead to global supply disruptions and lasting brand damage. Supply chain executives have to be equally vigilant about internal operational risks and even functional support risks in areas such as legal, finance, HR, and IT.

As executives find themselves being asked more and more questions about the risks facing their supply chains, many have decided it's time to reexamine their assumptions and approaches. In this issue of Risk Angles, Kelly Marchese answers five of the questions she hears most frequently regarding supply chain risk. Then, James Cascone takes a closer look at supply chain risks associated with our food supply.

Question	Kelly's take
Why is supply chain risk something we should be worrying about now?	Supply chains today are more vulnerable than ever — and the potential business impact has never been more multifaceted. Globalization is one reason for this, boosting supply chain complexity and magnifying the impact of disruptions by exponentially increasing the number of individuals, organizations and operations that can impact a product's supply chain. Increased reliance on an extended value chain is another key factor. Today, it is virtually impossible to have a direct "line of sight" and drive accountability for risk across the entire supply chain. And social media adds an entirely new challenge by instantly shining a global spotlight on even the smallest, most isolated problems — giving companies no place to hide.
We've already poured a lot of time and money into supply chain improvements. What more can we do?	Ironically, traditional efficiency improvements have actually increased supply chain risk by focusing on cost reduction without an accompanying evaluation of the vulnerabilities it can expose. No matter how efficient your operations might be, supply chain risk is a critical issue that needs to be addressed. The first step is to understand the most critical vulnerabilities. The second step is to identify who owns those vulnerabilities. In many cases, responsibility rests with more than one person or organization.
Since we mostly use external suppliers, isn't supply chain risk <u>their</u> responsibility?	According to **The Ripple Effect**, a recent survey conducted by Deloitte Consulting LLP, 63% of executives see external suppliers as one of the biggest sources of today's supply chain concerns. And when problems do arise, it's your company — not your suppliers — that will likely bear the brunt of the blame. What's more, even having a diversified portfolio of suppliers is no guarantee. For example, when Japan was hit by a tsunami in 2011, most companies thought their supply chains were safe because they had multiple suppliers as backups. As it turned out, many of those suppliers relied on the same secondary suppliers, causing the entire supply pyramid to collapse.
How do we eliminate supply chain risk if we can't predict the future?	You can't. Although some supply chain risks are readily identifiable and can be effectively mitigated with proper planning, others are impossible to predict and avoid. No company has the infinite resources necessary to address every possible risk. On thing you can do though is create a "resilient" supply chain that can (1) react quickly enough to sidestep emerging problems or take advantage of market opportunities, (2) absorb a hard hit without shutting down completely, and (3) bounce back quickly from even the biggest, most widespread disruptions.

Question	Kelly's take
Resiliency sounds like a good idea. Where do we start?	There are four key pillars of supply chain resiliency: • **Visibility** — having the ability to track and monitor supply chain events and patterns as they happen — or even before they happen. • **Flexibility** — instilling an organizational mindset and expectation that the company can react to problems quickly and find workable solutions without significantly increasing operational costs. • **Collaboration** — working with critical supply chain partners through symbiotic, trust-based relationships to avoid disruptions and achieve common goals. • **Control** — defining the governance structure, policies, and monitoring mechanisms that help make it second nature to follow proper procedures and processes when the need inevitably arises. It isn't possible to identify and address every conceivable risk, so concentrate on the most critical vulnerabilities that are especially important to your business. Resiliency can be the difference between surviving and thriving in a world of increasingly complex supply chain risk. But it requires a new mindset and new capabilities across the entire supply chain. This kind of fundamental change doesn't happen overnight.

A closer look: Supply chain risks in the food industry

James Cascone

Today's food value chain perfectly illustrates the need for resiliency. In the past, most food companies dealt with supply chain risk after-the-fact through product recalls — and by switching suppliers once problems were detected. In an increasingly complex marketplace, the traditional approach just isn't good enough.

Tracing a food problem back to its source is complicated by multi-tiered supply networks and divergent standards for food quality and safety around the world. For example, various countries that produce rice allow different levels of arsenic (which is used to control pests). This means that rice may be deemed safe and legal to sell in one market but not in others.

Regulations and standards are continually evolving and present a challenging risk. In the U.S., for instance, federal lawmakers are expanding the authority of the Food and Drug Administration (FDA) to include the ability to shut down operations that fail to comply with the law. Food companies may soon face the real risk of being put out of business, as opposed to simply conducting a recall, which many food companies were willing to live with as a cost of doing business.

A more challenging risk is food fraud and economic adulteration. Effective risk management in this context requires more than a general understanding of supply chain risks or the ability to change suppliers. It requires an in-depth scientific knowledge of ingredients, packaging and manufacturing processes that drive food quality and safety. Verification of your foreign suppliers, including an assessment of their food defense measures, is an essential mitigation strategy that protects your consumers and your bottom line.

When assessing supply chain risk, regardless of the industry, lack of transparency to Tier N suppliers may produce sub-optimal results without in-country business intelligence services and traceability solutions. Even though commodities may appear undifferentiated, quality ingredients are not easily replaceable and sourcing from qualified suppliers can be a challenge. It's also worth remembering that eliminating supply chain risk isn't an achievable goal. Instead, target *resiliency*. With greater resiliency, your supply chain should be better able to respond quickly to risks as they present themselves, absorb unexpected hits, and minimize financial and operational impacts to your business.

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