Supply chain risk strategies for emerging markets
Understanding the importance of risk
As so wisely pronounced over 30 years ago by the esteemed management guru Mr. Peter Drucker, “A business exists for one reason only, to create a customer.” The challenge for today’s global companies is that it is becoming extremely difficult to find customers in the markets where they are most established: in the developed economies of the U.S. and Europe. Instead, companies are seeking growth opportunities in what are known as the “emerging markets:”

- Brazil
- Russia
- India
- China
- Africa
- Latin America
- The Middle East

Although traditionally referred to as “BRIC” (for Brazil, Russia, India, and China), for the purpose of this paper, we have included additional emerging markets that are gaining traction for business growth. Although the regions listed above are grouped together as emerging markets, few similarities exist. This increases the challenge for companies that choose to enter and operate in multiple emerging markets. Stated another way, there is no “one size fits all” approach that may be applied by a corporation when it chooses to enter into an emerging market. Success is determined by understanding the differences in the supply chain and operational risks that exist within each country and region, and identifying strategies and solutions for managing vulnerabilities and mitigating risk.

Emerging markets may continue to grow at near double-digit rates for the foreseeable future, as incomes increase and economic prosperity grows across the emerging countries. From a growth perspective, emerging markets do present an inviting opportunity for a large number of corporations. Unfortunately, these markets also provide a significant number of risks that many companies may be unaware of and are unprepared to deal with.

**Abstract**

As economic growth stagnates in developed economies, emerging markets grow at near double-digit rates. However, risks also continue to grow, especially across supply chains, driving companies to implement strategies to reduce risks and costs.

**Understanding risk**

Ask twenty executives to name the risks their companies face. Odds are, you may receive twenty different answers. Risk is a topic that causes confusion, as many executives and corporate risk management departments traditionally have a narrow view of the topic. For example, the Merriam-Webster definition of risk is “someone or something that creates or suggests a hazard.” However, many companies focus their risk management efforts on reducing financial risk. Moreover, some corporations reserve their risk reduction efforts for corporate matters, paying minimal attention to the specific risks that take place across the supply chain.

For the purpose of this paper, the definition of supply chain risk is any event that may occur within the macro, extended value chain, operations, or functional areas that directly affect the ability of a corporation to meet customer demand or that has the capability for negatively affecting the reputation of the company. Understanding where such vulnerabilities for risk to occur within the supply chain is a key requirement for reducing risk before it damages operational efficiency or disrupts the supply chain to the extent that customer demand cannot be met.
Risk exists throughout the internal and external supply chain

Risk reduction efforts should have a focus on the supply chain, due to the inherent levels of complexity and potential effect on corporate reputation. There should also be a focus on creating an environment within the corporation, using strategies and tactics to create resilience across supply chains — from end-to-end. This is particularly true for corporations that operate globally with supply chains that cross continents, as this brings increased levels of risk to many different areas.
Supply chain risk

| 1. Why should companies be concerned with supply chain risk? | Increasing supply chain risk exposure | • Supply chain trends, macroeconomic forces, and emerging trends have shifted the dynamics of supply chain risks
• Recent supply chain risk events have resulted in significant effects on shareholder and brand value at large companies |
| High effect from supply chain risks |

| 2. What is Deloitte’s view on supply chain risk? | Multi-faceted and constantly evolving | • Risk stems from multiple sources from within and outside of the supply chain, emerges from new frontiers, and is not always easy to predict
• Resilient supply chains, characterized by a balance of flexibility, visibility, collaboration and control, mitigate the exposure to and effect of risks |
| Resilience as an antithesis to risk |

| 3. How can companies manage risk through resilient supply chains? | Building resilience requires a holistic and proactive approach | • Assess supply chain resilience and pinpoint critical vulnerabilities
• Prioritize risks based on intensity, vulnerability, and node criticality; aggregate key risks to quantify baseline exposure level
• Define the costs and benefits of potential resilience strategies and develop a business case and resilience roadmap to guide execution
• Address supply chain resilience gaps using the defined roadmap
• Develop a means to monitor supply chain resilience and manage emerging risks and vulnerabilities
• Determine clear ownership and foster organizational alignment
• Use a technology infrastructure to support analytics and monitoring
• Develop cross-functional governance and processes |
| Governance, ownership and analytics are key |

Supply chain risk may be better understood when viewed through the lens of reality versus narrow optics that may fail to convey the dangers that may occur at any time and in any country. Over the last 20 years, supply chains have become increasingly affected by events that occur outside the supply chain.
External trends that have increased supply chain risk exposure

<table>
<thead>
<tr>
<th>Globalization of supply chains</th>
<th>Risk events across the globe can now have profound disruptive effects on a company’s operations</th>
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<tbody>
<tr>
<td>Rise of just-in-time and lean practices</td>
<td>Lower safety stocks and increased timing and logistics complexity have introduced new risks into operations</td>
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<tr>
<td>Increased outsourcing of core activities</td>
<td>Outsourcing business activities can hamper a company’s ability to manage disruptions within a multi-tiered supplier network</td>
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<td>Supplier consolidation strategies</td>
<td>Consolidation reduces sourcing flexibility and can limit capacity to respond to demand fluctuation or crisis events</td>
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<td>Centralization for economies of scale</td>
<td>Centralization can make companies increasingly susceptible to significant disruption by a single-site event</td>
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A review of the list of external trends clearly demonstrates that, as the world has flattened and businesses have expanded globally, risks have increased exponentially — and may continue to do so in the coming years.

Risks can be categorized into four primary groups:

- Macro-environmental risks that have potential effects across the supply chain
- Extended value chain risks that originate in upstream and downstream supply chain partners
- Operational risks that relate to internal process risks
- Functional risks that exist among functions that support supply chain processes

Risks can also be viewed in terms of the effect on a corporation. Promoting corporate employees with no prior transportation or logistics experience to manage transportation could be considered an example of an operational risk that results in higher costs and decreased customer experience. Only having one supplier for a critical part with no alternative supplier as a back-up is an example of a potential disruptive risk.

**The challenge of emerging markets**

Few could argue that corporations should target emerging markets for expansion. But, it may be wise to keep an eye on the risks corporations may encounter, such as:

- **Difficult and unclear regulations** may make it challenging to understand the exact requirements for operating successfully within a country or geographic region
- **Lack of infrastructure** may greatly increase supply chain and logistics costs
- **Intellectual property theft** could erase years of efforts and cost a corporation millions of dollars in lost revenue, and even a loss of the company itself
- **Vague product safety standards**, specifically related to food manufacturing, processing, and distribution, could lead to illness and death
- **Increased natural disasters**, from earthquakes to tsunamis, could disrupt supply chains and cause injuries and even loss of life
- **The use of child labor** could significantly damage the reputation of a company

Emerging markets are an example of risk versus reward. Companies may reduce risk by understanding the environment and cultural differences before entering these markets, and by selecting project leaders who have hands-on experience operating in the region. It also helps to establish relationships with local companies that have experience in helping to reduce risk and costs.
From a supply chain point of view, corporations should consider taking the time to answer the following questions:

- Who is our customer?
- What are the specific risks associated with the market we plan to enter?
- From the shelf backwards, what is the supply chain that can meet customer demand cost effectively?
- Do we need a responsive supply chain for products that have unknown demand?
- Do we need an efficient supply chain to cost-effectively provide products with known demand to our customers?
- Do we require the ability to manage both types of supply chains?
- Do we have the capabilities and experience required to mitigate risks, as well as design and implement a high-quality supply chain, to meet customer demand?

Answering the questions above may provide valuable and honest feedback that could help reduce risk in emerging markets. Companies that fail to ask and answer such questions may run into operational and disruptive risks, even to the point where they may have to exit a market and incur significant costs and damage to their reputations.

**Conclusion**

Increased supply chain costs and risks are the price of admission when operating in emerging markets. Companies that anticipate threats and implement strategies to contain costs and mitigate risks may be better positioned to succeed than companies that neglect to recognize the importance of supply chain risk management.
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