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Strengthening the weakest link Safeguarding your supply chain from fraud

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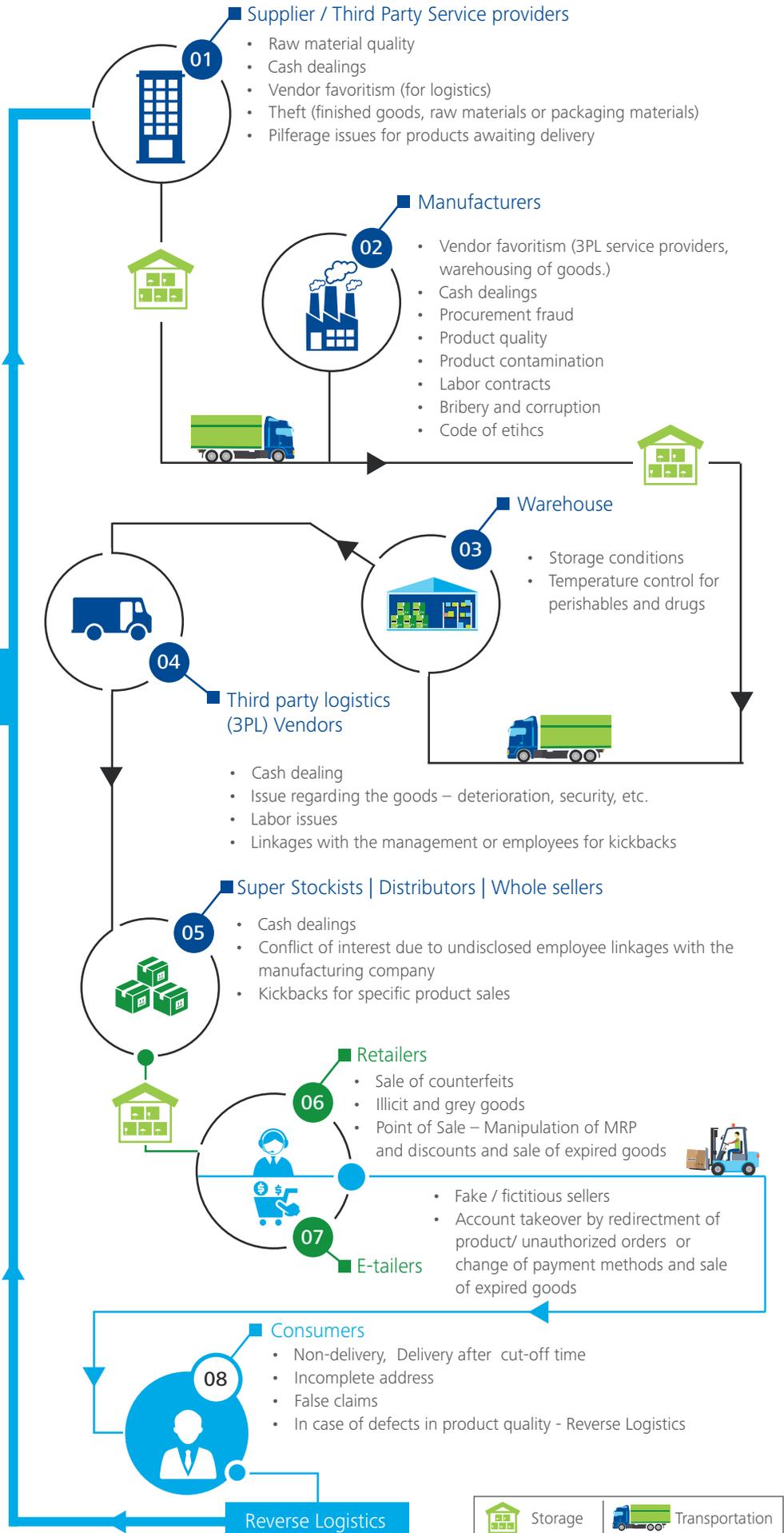
SAFEGUARDING YOUR SUPPLY CHAIN FROM FRAUD

India is moving towards an increasingly consumerist economy, driven by the choice of goods and services at compelling prices. This is further propelled by growing disposable incomes, rapid urbanisation and reach of the Internet. While relatively new sectors, such as e-commerce are growing at rate of 57^{1%}, traditional sectors such as manufacturing (growing at a rate of 7.1^{2%}), consumer goods (projected to grow at a 12% CAGR through 2020³), agriculture and food processing (with a 20% CAGR⁴) and pharmaceuticals (recording 16% growth⁵) are also clocking double-digit growth. Keeping pace with such a growth momentum can be challenging without robust back-end systems and an adequate infrastructure for supply chain management.

Although some sectors have largely tried to manage their operations and logistics internally, there is growing reliance on third-party vendors, multimodal transport and outsourcing activities overall, subsequently leading to increased fraud risks such as counterfeiting, pilferage, bribery, corruption and non-compliance with local laws. If unattended, these fraud risks can result in huge losses for the manufacturers, distributors and retailers⁶. Such incidents highlight the presence of weak linkages in the supply chain network, resulting from increased human intervention, gaps in policy, procedure or technology and influx of counterfeit, grey or illicit goods. The diagram on the next page illustrates the common linkages observed in supply chains, along with the key fraud risks at each stage.

- Source: Asia Pacific Online Retail Forecast, 2011 To 2016," Forrester Research Inc. Zia Daniell Wigder, with Steven Noble, Vikram Sehgal and Lily Varon., April, 2012
- Source: <http://indianexpress.com/article/explained/explained-manufacturing-growth-why-govts-figures-dont-add-up/> - June, 2015
- Source: <http://www.ibef.org/industry/indian-consumer-market.aspx> - Jan, 2016
- Source: <http://www.ibef.org/industry/indian-food-industry.aspx> - Jan, 2016
- Source: <http://www.ibef.org/industry/indian-pharmaceuticals-industry-analysis-presentation> - Jan, 2016
- Source: <http://www.4cassociates.com/weak-supply-chains-stunt-development/> - May, 2012

THE SUPPLY CHAIN ECOSYSTEM AND KEY CONCERNS



COMMON MANIFESTATIONS OF SUPPLY CHAIN FRAUD



SUPPLY CHAIN



LEAKAGE IN SUPPLY CHAIN

- Theft of unfinished products/packaging material
- Theft of inventory and misreporting scrap generated
- Collusion with scrap vendors and leakage of product/packaging material scrap to counterfeiters
- Unauthorised sale of stock to B2B vendors
- Counterfeits and grey market products



DIVERSION OF PRODUCTS

- Creation of deliberate or artificial stock out situation by distributors in select markets for high-selling products and sales made to retailers at an inflated price
- "Piggybacking" of slow moving Stock Keeping Units (SKUs) by forcing distributor to buy these along with fast moving ones
- High dependence on favoured distributors to sell the bulk of stock
- Kickback received from distributor/wholesaler for favourable contractual terms and annuity business
- Diversion of domestic sales to export market through unauthorised exporters
- Using substandard parts of substitutes

LOGISTICS AND DISTRIBUTION



DISTRIBUTION MANAGEMENT

- Failure to report damaged/expired inventory
- Packaging frauds
- Manual invoicing outside distribution management system
- Unauthorised sale of free products/gifts
- Dummy customers created to inflate sales
- Channel stuffing



TRANSPORTATION FRAUD

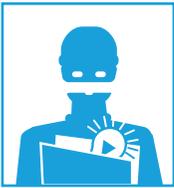
- Excess or fraudulent payment made to transporters, based forged invoices/supporting documents
- Allocation of business on non-contracted/non-agreed routes to favoured vendors for kickbacks
- Significant difference in rates at which trucks are hired from the spot market
- Manipulation of payments made towards use of trucks by misrepresenting facts – E.g.: if one truck was used at full load, invoices would be made out to show that two trucks at half load each were used, thereby adding on extra taxes and other applicable charges
- Weighbridge-related fraud, including manipulation of gross/net reported weight of trucks or partial unloading of trucks/tankers
- Siphoning off and diversion of goods by transporters





HOW CAN OUR FORENSIC TEAM HELP?

Deloitte, with its skilled and experienced team of professionals, can help you limit your organisation's supply chain vulnerabilities. We are able to bring a cross-disciplinary perspective to help you address complex and competing requirements, emerging regulatory trends and evolving industry practices.



FRAUD RISK MANAGEMENT

- Supply chain fraud risk assessment
- Customised forensic diagnostics of the 'procure-to-pay process'
- Advisory on anti-bribery and corruption compliance programme assessment
- Fraud awareness training



WHISTLE BLOWER HOTLINE

Whistle-blowing advisory services, which include implementing a whistle-blower mechanism, drafting a whistle-blower policy and conducting awareness programmes for management and employees



BUSINESS INTELLIGENCE

- Third-party due diligence
- Pre-hire senior management diligence



FORENSIC DATA ANALYTICS

Forensic diagnostics of the supply chain process, using forensic data analytics and market intelligence to identify red flags and recommend a mitigation plan



BRAND PROTECTION SERVICES

- Supply chain gap analysis
- Anti-counterfeiting investigations
- Investigation into product contamination and substitution



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