Truth or Dare: How to Manage Global Supply Chain Risks?

Deloitte Debates

Recent major disasters such as Hurricane Sandy and the Japanese tsunami have focused a lot of attention on supply chain risks. The question is how much time and effort should you invest in managing such risks and what's an effective way to do it?

Deloitte recently surveyed 600 executives in 25 countries to help us understand the true impact of supply chain risks on today's global businesses – and to identify what leading companies are doing to manage those risks more effectively. Although many business leaders are still debating the issue, the results of our survey provide a clear direction for the future.

Here's the debate:

Point	Counter-Point
Supply chain risks are just media hype. Although it might seem as if supply chain risks are on the rise, it could be that they are just getting more attention thanks to the 24-hour news cycle and the internet, which can spin even the smallest problem into headline news.	**Supply chain risks are becoming more frequent and costly.** Companies today face virtually unprecedented supply chain risks that are all too real. Natural disasters. Economic crises. Global supply disruptions. Energy and water shortages. Political unrest. The list goes on and on. What's more, the impact of these risks is getting worse as supply chains become more extended and global.
Many companies have invested heavily in optimizing their supply chain capabilities. A vast majority of companies have already spent considerable time, money and effort on improving their supply chain capabilities. In our survey, 71% of respondents said that supply chain risk is a key consideration in their company's strategic decision-making. What more can they do?	**Many companies aren't as good at managing risks across their extended supply chains.** More than half of our survey respondents don't believe their companies manage supply chain risk very effectively. Businesses today are more reliant than ever on suppliers and other third parties. Yet many companies are barely scratching the surface when it comes to understanding and mitigating risks in their extended supply chain networks.

Point	Counter-Point
It's impossible to predict all risks, so why bother?	**Resilience is important.**
Supply chains are inherently risky – and the risks are constantly evolving. Trying to predict and prepare for all risks is an exercise in futility.	According to our survey, many leading supply chains don't try to identify and avoid every possible risk. Instead, they focus on building resilience – supply chain capabilities that help them make rapid adjustments so they can sidestep or reduce negative impacts and bounce back quickly from whatever disruptions may occur.

My take

Kelly Marchese
Principal
Deloitte Consulting LLP

The results of our survey show that heightened supply chain risks are not just media hype. Over the past three years, 48% of the surveyed companies have seen a significant increase in negative outcomes from supply chain risks and 53% found that the cost impact of supply chain risks has increased.

Given those numbers, it's not surprising that 71% of the surveyed executives consider supply chain risk to be "extremely important" or "very important" to their company's strategic decision-making. Moreover, 88% of respondents said their company either already has a specific program for managing supply chain risk (63%), or is currently working to develop one (25%). The bad news is that more than half (55%) do not believe their company's efforts to manage supply chain risks have been very effective.

In our experience, many efforts to manage supply chain risks are driven by the CFO and focus more on financial performance than operations. This finance-centric approach has limited value in helping companies create resilient supply chains that are able to predict, mitigate and quickly respond to the full spectrum of supply chain challenges and operating risks.

Another improvement opportunity is for companies to focus more attention on risks within their external supply networks. Many businesses today are built around an extended enterprise model where much of the actual work is done by outside parties. This exposes a company to a wide range of operating risks, from minor quality problems to catastrophic supply disruptions. It also increases the risk of "guilt by association," whereby a supplier's questionable actions can cause significant damage to a company's reputation and brand. According to the companies we surveyed, 63% of their most costly supply chain problems occurred at Tier 1 suppliers/third parties (37%) or Tier 2 suppliers (26%), compared to only 37% that occurred within their own operations. Although there is still significant room for improvement internally, it's clear that the lion's share of effort should be focused on a company's suppliers (and its suppliers' suppliers).

Since negative supply chain events are often unpredictable and unavoidable, an effective approach is to create a resilient supply chain that can respond on-the-fly to early signs of trouble and bounce back quickly when problems occur. Specific attributes include:

- **Visibility:** Monitoring supply chain events and patterns as they happen, so you can address problems pro-actively—or perhaps even avoid them altogether.
- **Flexibility:** Adapting to problems quickly and making rapid adjustments that limit the impact of disruptions, without significantly increasing operational costs.
- **Collaboration:** Having trust-based relationships that enable you to work closely with supply chain partners to identify risks and reduce disruptions.
- **Control:** Establishing policies, monitoring capabilities and control mechanisms that help ensure procedures and processes are actually followed.

In today's increasingly complex and uncertain business environment, these resilient supply chain capabilities could be the difference between winning and losing.

Related content

Library: Deloitte Debates
Services: Consulting
Overview: Strategy & Operations, Supply Chain and Manufacturing Operations

Related links

The ripple effect
How manufacturing and retail executives view the growing challenge of supply chain risk.

Supply chain resilience
Supply chain resilience provides a framework for identifying and analyzing all forms of supply chain risk.

Supply chain risk: Protecting your organization in the new era of exposures
Watch the Dbriefs webcast replay.

Impact of the disasters in Japan on the U.S. manufacturing supply chain
Read the PoV.