Supply Risk Mitigation
Identifying and managing supply chain risk
Turbulent times
The current economic climate continues to see the supply chains of major UK businesses impacted by corporate failure.

The ability to monitor the performance of key suppliers and proactively identify and manage those at risk is critical to preserving continuity of supply, delivering strategic objectives and outperforming competitors.

Failure to foresee and mitigate the risk of supplier failure could have serious consequences, from availability issues and revenue losses to complete production stoppages. In addition, there is the cost of disruption and potentially switching supply.

To start a new section, hold down the apple+shift keys and click to release this object and type the section title in the box below.

You can insure against the failure of a customer, but how would you deal with the failure of a key supplier?

Take control
Do you have the expertise, tools and techniques required to gain a deep insight into the position of your key suppliers? Establishing the vulnerability of your suppliers can be time consuming and publically available financial information is out of date and provides little comfort.

You may have a high level understanding of the suppliers where you have the greatest level of spend, or those that have a direct impact on customer facing operations. But are you comfortable that this analysis is focused on the key risk factors, comprehensive, robust and up to date? Do you know how reliant each supplier is on you or other customers? Do you have a response plan in the event of a potential failure of that supplier?

Typical triggers
We work with our clients at all stages of the supply chain lifecycle, including:

- financial risk assessment in taking on new suppliers;
- implementing revised business structures or terms of trade;
- identifying suppliers at risk by comparing their performance to plan, service level indicators or other suppliers;
- monitoring the performance of those stressed suppliers and developing strategies to either improve their performance or switch supply; and
- preparing contingency plans to address the risk of supplier insolvency.

Your supply chain is only as strong as its weakest link.

Approach
We can work with you to help you understand the risk factors most relevant to your business model/supply chain and to unlock the information within your own business.

This will help you to identify which of your suppliers are most important to you and also which are most vulnerable. If any are considered important but at risk, an initial focused review to understand why they have triggered your risk criteria will minimise further cost by confirming whether or not a full review of that supplier is necessary.

Whilst it is always preferable to identify and mitigate potential risks before they become crises, we have considerable expertise in assisting our clients in emergencies.

We can deploy immediately, work to tight deadlines and under intense pressure to deal with the fall out from the unexpected failure of a key supplier.

Case studies
Our clients typically have one or more of the following characteristics:

- a large tiered supplier base;
- reliance on UK products or services;
- sole supply for own label; and
- difficulties in immediately switching supply.

We bring a combination of financial, commercial and operational expertise to bear in providing our clients with clear recommendations and have the national and international coverage, experience and credibility to implement the chosen strategy.

Project Fire
We undertook a detailed review of a large potential supplier to a global drinks producer, in order to determine its operational and financial viability as part of a resourcing exercise.

Our input identified a number of financial risks which needed to be addressed by the supplier, together with contractual and operational risks facing the client. This planning assisted a smooth transition from the incumbent provider, and reduced operational and financial risk to the client.

Project Chill
We were engaged to undertake a short period of contingency planning, following a cash crisis at the sole refrigeration supplier to a major UK supermarket.

We were appointed as administrators to the supplier, and traded the business for a 3 month period whilst a sale of the business was explored.

With no appetite from potential purchasers to take on the business, the business was traded for a further 6 month period, during which time the supermarket successfully re-sourced, ensuring continuity of supply.
Understand the risk factors most relevant to your business model/supply chain, helping you to design a risk model that will allow you to identify which of your suppliers are the most important to you (for example, by spend level, contact with customers or availability of alternatives) and which are most vulnerable according to your risk criteria.

Your risk model will typically access:

• Information and data within your own business (such as payment profile or delivery performance);
• Risk focused research tools; and
• Other publically available sources.

If you wish, we can assist you in formulating a questionnaire that you can send to your suppliers allowing more up to date financial information to be gathered and explanations to be provided by your suppliers.

This will typically allow you to compare your supplier risk profile to the risk appetite of your business.

Focused review of a selection of suppliers deemed to be at greatest risk following work during Step 1, including:

• compiling bespoke information request for each supplier, covering risk areas identified during Step 1;
• conducting initial financial review/analytical work prior to meeting management;
• one day meeting with suppliers’ management team (both Finance and Commercial teams) to discuss information provided; and
• market intelligence from Deloitte sector teams to corroborate discussions with the supplier.

This should confirm whether or not a full review of that supplier is necessary.

A more thorough appraisal of a specific supplier, either as a result of continued concerns from our Step 2 work, or following a trigger event, such as:

• insolvency of a related company;
• request to renegotiate supply terms;
• funding issues, whether communicated directly, or indirectly (by a request for early payment, or an advance against tooling debtors);
• deterioration in agreed metrics (SLAs); or
• loss of another major customer.

This review would consider your options and assist in formulating contingency plans where necessary, based on:

• a rapid assessment of the supplier’s balance sheet and liquidity position; and
• a review of the supplier’s medium term plan and future trading forecasts.

Following our options review, we can work with you to deliver the required outcome:

**Stabilisation**

• Short term cash management, monitoring of ongoing performance, remedial contract terms, enhanced service level indicators.

**Alternative outcome analysis**

• Consider options and costs involved in re-sourcing.

**Operational planning**

• Understand how to ensure continuity of supply until exit (if necessary).

**Exit options**

• An appropriate mechanism to effect a transfer of the business to a third party/bring operations in-house/ provide time to re-source.
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