

**Re-Examining Supply Chain Risk:
*Failure to Take a Holistic Approach
Impacts the Bottom Line***

August 2008



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Summary:

In April of 2008 TradeCard and Clear Seas Research surveyed 139 consumer products and retail executives regarding supply chain processes and initiatives. The study examined the level of automation that exists in the supply chain to collaborate with trade partners, ensure compliance and handle risk.

Analysis:

In today's complex sourcing environment, it is critical to understand all of the risks that can jeopardize the success of sourcing operations. Our recent survey shows consumer goods companies and retailers are surprisingly placing very little emphasis on monitoring supply chain risk. Many companies today still rely on slow manual processes that offer only limited visibility. This lack of visibility leaves them exposed to risk when events or the need for change occurs. Our study shows most companies are taking a reactive approach to risk, as opposed to a proactive approach that could help minimize the impact of disruption and protect bottom line results early in the cycle.

The most striking points of the survey are that 66% of those companies in the consumer goods and retail space rely on physically visiting factories to benchmark suppliers and trade partners, and manage risk; and they rely on fax, email and phone to work with suppliers. Another interesting finding is that 60% of those surveyed said strategic programs, such as private labels, direct shipments and postponement, are high priority company goals and initiatives. However, the study shows that many have not put technology in place to support efficient execution of these strategies, exposing risk onto themselves in various forms. As companies initiate new overseas sourcing programs they face a number of barriers and heightened complexity. Currencies, customs and time zones are just a few forms of risk to be addressed. Increased complexity of transactions requires companies to change the way they view and assess supply chain risk. A holistic approach that includes all supply chain parties involved in the process and identifies potential weak points can protect the bottom line.

A gap exists today between companies' goals and their capabilities, which are often limited due to existing legacy infrastructures. This discord prohibits achievement of the potential of a fully outsourced supply chain. Study results clearly show a lack of initiative needed to automate transactions and mitigate risk. Consumer goods companies and retailers recognize the strategic business benefits of advanced sourcing programs such as direct shipments, but these benefits come at the price of new risk. For example, shipping directly from factory to the store may save two weeks of time, but will the factory pack according to specifications and enable the store to open the box and place products

directly on shelf? Or is there danger of chargebacks? Are the labels done properly? Are the colors and sizes correct?

There's an even bigger picture to the risk factor. Liquidity, communication, delays, social compliance and product quality are some of the broader risk factors that should be addressed as part of a holistic approach to supply chain risk. By re-examining the standard approach to supply chain risk, companies can find themselves proactively addressing problems instead of reactively scrambling to limit damage.

Look beyond clearly identified risks of delays, quality and human errors, to some of the other issues that impact the bottom line. Companies can limit their exposure and the potential threat to their bottom line by eliminating manual re-keying, knowing and involving the raw material provider, and increasing collaboration amongst all parties in the supply chain. Putting all relevant trade documents on one transparent central platform that gives all parties direct visibility into the process goes a long way toward mitigating risk of delays, exposure, misunderstandings and handling errors.

Key Findings:

In the businesses of consumer goods and retail, loss of ***control, quality concerns*** and ***misunderstandings with suppliers that result in errors*** are more likely than other measures to be considered as risk factors that have a greater impact on the supply chain.

Compared to other factors, ***lack of agility or alternative options for sourcing and delivering product*** has relatively more impact on a firm's ability to reliably deliver goods on time.

Unexpected hidden costs and risks in a sourcing and supply chain operation have primarily arisen from ***excess shipping costs that stem from being forced to expedite delivery***.

Few companies are ***using portals, trade platforms or payment automation tools to share information***, ease suppliers' problems and mitigate risk of delay from suppliers.

Two-thirds of companies benchmark their suppliers by ***physically visiting factories regularly***.

To enhance visibility into suppliers, most companies still stay at the very basic level of steps by ***working directly with key vendors via fax, e-mail, phone***. About a quarter of companies have an ***automated PO, payment, and settlement process***.

The ***design process*** is least likely to be automated in a company's supply chain, while ***ASNs*** are most likely to be automated.

China is identified as the leading country/area that companies include in their sourcing portfolio, followed by India and Latin America.

Strategic programs is notably rated as the most impactful factor to a company's competitive advantage in the next year in terms of the global sourcing.

On-demand technology that links all parties is considered relatively more important than other factors to successful global trade 5 years from now.

Another example of supply chain risk that is often overlooked is access to capital. What happens if a supplier in Asia or Latin America, or the small factory that provides raw materials to that supplier, lacks the funds to order materials and start manufacturing the order? This is a reoccurring problem for brands and retailers that results in either raw materials ordered late or reverting to costly letters of credit. Risk resulting from capital constraints causes delays, erodes margins and results in excess fees from rush shipments. Capital costs are another form of risk that impacts the bottom line. If suppliers are paying 15% interest on capital, that cost is eventually being passed along to the buyer. This is often overlooked in the traditional concept of supply chain risk - but it can be a major threat to the bottom line and a key risk that needs to be addressed.

This wider and holistic view of supply chain risk factors require companies to change the way they address supply chain risk. A holistic approach takes all variables of supply chain risk into consideration, on all levels.

Recommendations:

- Analyze all areas and partners of the supply chain. Consider where risk may exist.
- Remove paper from the supply chain. Convert fax, e-mail and spreadsheets into electronic data for sourcing, logistics and supply chain finance processes to eliminate errors, excess costs and disconnections in transactions.
- Use technology to connect multiple parties. Create or join a multi-enterprise collaboration hub – a place where all parties can view transactions and collaborate based on the same data. Centralize purchase orders, invoices, payments, settlements and supplier scorecarding.
- Build up, or tap into, an existing global supply network. The ability to rapidly switch supply chain partners and lower transaction costs is key. Avoid disruptions by maintaining agility to shift raw materials providers, 3PLs, vendors or other trade partners. Agility is a key to proactively addressing risk.
- Find the right partners that enable innovation. Supply network transformation will be a key to competing in the new era of global sourcing. The right partners are key to making this happen. Look for flexible technology with global support in hard to reach places. Look for partners that offer a wide variety of supply chain services, such as 3PLs, freight forwarders and export finance providers.
- Partner with suppliers. Make them an extension of the business. Seek ways to collaborate with them to improve communication and ensure accuracy and efficiency. Look for solutions and tools that create a win-win opportunity for all parties in the supply chain.

- Think outside of the supply chain box. The supply chain is no longer a chain but a network of inter-connected parties. And it's not just about saving time and moving goods. Seek ways to partner with the finance department to generate bottom line benefits. With the right tools in place, companies can improve margins, cash flow and supply chain visibility – to improve the bottom line.

About the Author:

Esther Lutz is Vice President of Business Development at TradeCard, Inc. She has more than 20 years of experience helping retailers and consumer goods companies achieve excellence in sourcing and supply chain transformation.

More Information:

Go to: www.tradecard.com
Email: info@tradecard.com

