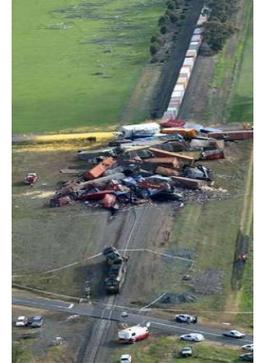


Supply Chain Risk – Are You Prepared to Manage the Risks in Your Supply Chain?



We are all becoming more aware this is a dangerous world that we live in. Media coverage of events like Cyclones that wipe out whole cities or even more devastating Tsunami consistently capture prime airtime. Likewise the risks presented by terrorism and civil unrest are a major part of the Australian Government “Travel Advisories”. Firms are also taking a real interest in the impact of these types of event on their activities. Despite the sometimes dramatic events that surround our research seems to point to the mundane rather than the dramatic being the downfall of supply chains.



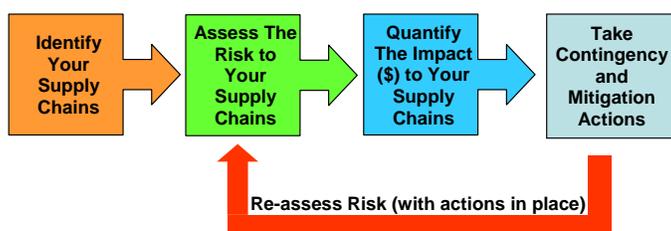
The main failing firms find is that they have not carefully considered the risks they face and in particular they don't prioritise the risks in a logical and supportable way. Sometimes this can be because the impact of the event is underestimated. Recent research by Vinod Singhal and Kevin Hendricks¹ highlight the fact that serious effects from risk events not only last three or more years but, versus the firm's reference group the following performance outcomes occurred:

- 107% reduction in Operating Income
- 114% drop in Return On Sales
- 11% increase in Costs
- 14% growth in inventories
- 33% to 40% reduction in Shareholder value
- 13.5% greater share price volatility

The research was based on over 800 firms that experienced Supply Chain disruptions against a reference group of equivalent firms that did not suffer the same disruption. A report by the Aberdeen Group in the USA also supported the results gained by Singhal & Hendricks showing that 80% of their survey group had experienced Supply Chain disruptions in the last 12 months. More importantly the survey found that 75% of participants expected Supply Chain risk to increase significantly over the next three years. Aberdeen also reported that “Best Practices” such as Global Sourcing, Lean Practices and staff reductions had made Supply Chains more vulnerable to disruption than at any time in the past.

While it might seem that “best practices” increase risk is a counter intuitive notion, most practitioners would agree. So what is to be done? In addressing this issue it is important to use a rigorous process that talks the language of the boardroom. That is risk must be related to dollars rather than an esoteric risk factor number. It must also follow a logical and defined path as shown below:

Supply Chain Risk Assessment Flow Chart



Supply Chain Risk Assessment involves close scrutiny of each element of the Supply Chain and asking the questions:

- What could go wrong with this element?
- If this went wrong what would the impact be?
- How likely is this failure to occur?
- What controls do we have in place to prevent this failure and how effective are the controls?

To make sure that no areas are missed we use a model developed at Cranfield University that looks at the elements shown in the chart below:



This model recognises that risk can come from internal as well as external sources. It also does not overly focus on suppliers as the sole source of risk, to the detriment of consideration to the demand side of risk.

In assisting clients with the development of a robust **Supply Chain Risk Management Plan** we conduct a series of focused workshops on each of the risk areas. These involve stakeholders that are responsible and impacted by the risk area. It is not unusual to have suppliers or customers engaged in some of these events.

Using the “revenue at risk” approach we then prioritise the risk events and assist the client to develop the necessary mitigation, contingency and resilience plans to avoid, respond to or ride out the risk event.

Is your business ready to respond to the possible disruptions in your supply chain? We can undertake an initial survey and provide a brief snapshot of your current **Supply Chain Risk Profile** and your readiness to respond to risk events. If you would like to discuss undertaking a risk profile snapshot or have questions about Supply Chain Risk Management then please contact us:

Andrew Downard 0419 581 705
andrew.downard@adsupplychain.com.au



¹ Kevin Hendricks, Vinod Singhal THE EFFECT OF SUPPLY CHAIN DISRUPTION ON LONG TERM SHAREHOLDER VALUE, PROFITABILITY & SHARE PRICE VOLITILITY, June 2005.