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# Viewpoint <

## Risk Management

Using your suppliers  
to mitigate risk

**The current economic crisis has highlighted the need for all companies to urgently conduct thorough risk management of their supply base. This involves identifying potential risks, assessing the probability of occurrence, the potential impact, and also putting in place the ways and means of mitigating the risks.**

What many companies fail to realise however is that by building risk management into the sourcing process companies can actually use their suppliers to mitigate risk. This is not only more cost effective than doing it yourself but ultimately helps reduce the likelihood of the risk occurring. Now is the time for companies to review their sourcing processes to make sure risk management is done thoroughly and cost effectively.

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### Identify

In today's environment risk can take many shapes. It can be associated with traditional procurement areas of concern such as quality, delivery, pricing and security of supply. It can be associated with traceability of origin, working practices relating to how a product or component is assembled or produced, the carbon footprint associated with producing a particular product, and other areas of corporate responsibility. Risk can be associated with redundancy of the product or function it provides in terms of customer requirements and trends. It can also be the impact if suppliers go out of business.

What is clear is that to be sure all risks are identified, the assessment requires the input of all functions within a company to contribute their view of what is a risk and what the potential impact might be. **Procurement should not do it alone.**

The most optimum time to involve all functions (stakeholders) is up front when identifying internal requirements for a category, as it is at this point that all stakeholders are contacted to contribute their view on what is required and the conditions. Risk profiles should be completed, identifying what the key risks are for the category in question and the potential impact on the business. These risks should then be compiled into category specific or company wide hazards, included in a register and allocated an owner who will ultimately be responsible for mitigating that risk.

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## Prioritise

No company can address all the risks they face across all categories and the company as a whole. It is just not practical. The key is to focus on those that have both the highest probability of occurring and the greatest impact to the business, which includes those categories that are strategic to the business. Little or no time should be wasted on risks associated with categories which are not business critical.

Based on past experience, efforts should be focussed on risks that have actually occurred in the past, again using the collective experience of the company and not just procurement, then try and quantify the impact on the business in terms of lost sales or other financial penalties.

## Choosing your suppliers by how well they mitigate risk

The next key step is integrating the findings into your supply market profiling. Through a Request for Information (RFI) it is possible to ask potential suppliers what type of mitigation they would put in place to stop the risks from occurring and what steps they would follow to lessen the impact if they should occur.

The results can then be reviewed to determine the best solutions and the information used as one of the criteria to either develop a short list of preferred suppliers to go out to tender with, or work with the incumbent supplier if implementing Supplier Relationship Management (SRM).

If choosing the competitive tendering route it is worthwhile including a section on risk mitigation in the Request for Proposal (RFP). By having a clear objective of what should be achieved and giving it an appropriate weighting in the selection criteria, it is easy to then turn this into one of the key areas of negotiation and selection. Roles and responsibilities can be agreed, and penalties introduced if the risk is not managed accordingly.

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## Managing risk on an ongoing basis

Once the supply base has been selected, it is imperative that the internal risk owners engage with the suppliers on a regular basis.

Communication is key and it is here that Purchasing can play a vital role by being able to build findings and experiences into future negotiations and creating best practice. Most suppliers would welcome a closer relationship with their customers and in turn appreciate the opportunity to manage their risks with their customer base.

## Be vigilant

Procurement is in a prime position to work across the business building security into operations and contracts and ensuring as much continuity as possible.

However, the responsibility lies with all departments in an organisation to be vigilant. In the current climate, managing risks should not be an afterthought and suppliers should be included right from the start. Not only is this more cost effective and efficient but it allows for any concerns to be dealt with before they reach critical levels. Managing risk successfully involves a full chain of actions and Procurement is a vital link. However, it is just one link and cannot work alone.