



How to Evaluate Supply Chain Risks

Supply chain management requires consistent evaluation and reiteration as you identify new and progressing risks and work on ways to solve those problems before they affect your broader organization. Understanding how to evaluate risks to your supply chain, both in the short and long term, is key if you want to identify and leverage practical solutions that prevent future costs from spiraling out of control.

Types of supply chain management risks

An organization's supply chain can be affected by several moderate to severe risks. Understanding the types of supply chain risks can help you identify any problems that may be affecting your company, which is the first step to solving those risks and bolstering your supply chain's overall health.

Many supply chain risks arise from issues with specific suppliers, such as:

- Overly restrictive approval processes, which can slow down order agility and make it more difficult to weather economic storms
- Financial dependence on one supplier, which leaves your organization vulnerable to product unavailability and consumer distrust or disapproval
- Fraud, which can lead to legal trouble and severe fines, even if you were not aware of problems when you signed on with a vendor/supplier
- Conflicts of interest, which can lead to supplier mismanagement, supplier relationships withering, and supply unavailability at crucial times

All in all, it's crucial to identify if one or more vendors specifically are causing problems for your greater supply chain.

Additionally, risks can come from poor supply chain organization and management, including:

- Depending on *one* supplier for a major component, which, like having financial dependence on one supplier, can lead to product unavailability
- Relying on unnecessary shipping distances, which increases travel time and costs across the board, as well as leaves your supply chain open to disruption due to world events or weather

- Unwillingness to try new suppliers, which limits flexibility and prevents your organization from benefiting from the best supplier relationships possible
- Unwillingness to make long-term commitments and secure good pricing, which can cost your organization in the long term and lead you to miss out on discounts
- Unwillingness to investigate upcoming supplier firms in favor of bloated, established firms, which can increase prices for supply chain operations
- Low management efficiency due to repetitive tasks, poor technology integration, etc., can lead to wasted man-hours and higher costs for supply-chain operations

As with supplier-specific problems, overall supply chain management can also lead to issues if managers are not careful or prepared.

Create a Risk Matrix

Constructing a risk matrix is one of the best ways to analyze different risks (like many of the above examples). A risk matrix can help you categorize threats to your supply chain, evaluating which risks need to be taken care of first due to their likelihood of occurring or their potential impact on your organization.

Risk Matrix Example

A basic risk matrix could be 3x3 and look roughly like this:

High	Class B	Class A	Class A
Medium	Class C	Class B	Class A
Low	Class C	Class C	Class B
	Low	Medium	High

The left side describes the **probability** of an event occurring while the bottom side describes the **potential impact** a supply chain issue could have on your organization. You can use this to identify supplier risk classifications i.e. levels of risk to your business.

For example, you might categorize your chain's financial dependence on a single supplier as a medium probability but high potential impact problem. It's represented by the "Class A" above.

On the other hand, you might categorize a supply chain's unwillingness to try new suppliers as a low probability and medium potential impact issue. It's represented by the "Class C" above.

In this case, Class A suppliers are high risk and Class C are low risk. So the controls such as inventory, quality agreements, etc., should differ depending on the level of risk to your business.

Create a supplier risk management plan

Before you can solve problems that may be plaguing your supply chain, you have to create an effective risk management plan.

Risk Description

First, you must evaluate your supply chain and identify any potential risks.

Create a description of the core risks affecting your organization, as well as identify the vendors you need to thoroughly assess.

Analyze vendors along four major axes:

- Quality – This describes how well the vendor/supplier has performed against your objectives over the last 12 months
- Alignment – This describes if the supplier in question aligns well with your organization and its regulatory requirements
- Efficiency – This describes how well the supplier is improving its operations and attaining its objectives to the best of its ability, within reasonable resource constraints
- Veracity – This describes how well the supplier is testing their controls and practices in ways that make sense for better future efficiency

You can use the above factors to rank suppliers or vendors against one another. Then you will be able to determine whether certain vendors are posing risks to your organization's supply chain health.

Use the Risk Matrix for Assessment

Construct a risk matrix as shown above to assess different threats you have discovered in your organization's supply chain.

Use the risk matrix to organize threats from the most important to address to the least important to address. Then you can start solving the problems as necessary.

Create a risk-based procurement plan and strategy

Evaluation, of course, is just the start of good supply-chain management. You must then implement various strategies or fixes to take care of problems before they affect your organization, starting with those ranked most probable and most dangerous by the risk matrix.

Examples of strategies to eliminate supply chain risks include:

- Leveraging new software to streamline sourcing and supply operations, as well as automating tasks for better resource management
- Forging relationships with new suppliers and maintaining backup suppliers so you are not dependent on one or a few suppliers for your business's income
- Attempt end-to-end supply chain visibility, which can assist in spotting future problems before they become too dangerous
- Including partners in risk planning
- Reviewing your supply chain periodically using the above method

Identify areas of responsibility, assign tasks - make it easy and utilize procurement automation where possible

Be sure to identify any areas of responsibility and assign corrective tasks to managers or employees as necessary.

Above all, leverage technology so you can automate repetitive tasks and make your supply chain operations as efficient as possible. Tools are designed specifically to help supply chain managers reinvent and reinvigorate their operations.

Contact us today to see what this sophisticated software solution can do for you.