

## SUPPLY CHAIN DESIGN &amp; PLANNING

# What You Don't Know About Your Supply Chain Can (And Will) Hurt You

Q&A with Greg Schlegel, Founder of the Supply Chain Risk Management Consortium

**Q: How does the ongoing disruption caused by the COVID-19 pandemic compare to anything that we've ever seen in modern global supply chain management?**

The Supply Chain Risk Management Consortium has been focused on supply chain risk for 12 years. We teach in the classroom. We hold workshops around the globe. We lead, guide, direct, and coach our clients in terms of this journey. In our point of view, this is what we would call a catastrophic risk event. It carries a very low probability of occurrence but has a huge impact on society. A catastrophic event inflicts about 85% of all the negative financial impacts of all risk events everywhere.

Yet companies and countries spend only about 10% of their risk management time preparing for these types of events. We call this the risk paradox. About 90% of all the risks that we tend to identify for manufacturers are tactical and operational risks. Just about 10% are normally considered strategic risks, meaning they have a low probability, but you are totally unprepared, and therefore present the biggest risk to your business.

**Q: Is there any way to truly eliminate supply chain risk?**

The only way we know, in our 12 years of experience, to eliminate a risk is to exit the activity that is causing the risk. This is what we call avoidance, which is one of the five basic responses in developing a risk response plan.

The other main responses are acceptance, where a company accepts the chance of a risk occurring because of its low probability and high benefit, sharing the risk with a third party, transferring the risk through insurance or redundancy, where a company has back up processes or resources to mitigate against disruption.

## 6 Supply Chain Risk & Resiliency Best Practices

- Digitize Supply Chain
- ID Risks
- Assess Risk
- Plot Risks
- Run Scenarios
- Plan Risk Response

**Q: What can companies do tomorrow or today, versus what should they be doing in terms of good supply chain risk practices later?**

First and foremost, identify the risks to your enterprise. 90% of all the risks you identify will be tactical and operational, and they have tried and proven mitigation tactics.

Second, you have to assess those risks, and we advocate the use of at least three different quantitative methods such as risk priority numbering (RPN), and risk reward methodologies, and qualitative methods such as the Six Sigma Value at Risk (VAR) approach. Then, you need to map your supply chain because what you don't know about your supply chain can and will hurt you.

The second thread is, what can you do beyond just surviving and get into thriving? Digitize your supply chains. We advocate that every day. All the exemplary supply chain risk management companies such as Coca Cola, DuPont, IBM, Ericsson, Nokia, Cisco, BMW, and many, many more have digitized their supply chains.

Once you digitize your supply chain and identify and assess your risks, you can plot those risks over the top of your supply chain. The real benefit is to then take those risks and run 'what if' scenarios one at a time in a digital model. Why? To see how your supply chain reacts to certain risk stimuli. It's just a terrific deal. You get your dollars and cents, meaning you see your financial impact of each scenario, and each scenario should have an associated risk assessment. So I came, I saw, I identified, I assessed, I ran some scenarios one at a time. I now understand how my supply chain will react to certain stimuli, and now I can put together what we call a risk response plan.

**Q: Can you be efficient at the same time as being proactive about risk?**

It is true that many industries like automotive and even commercial electronics have bought into lean and just in time in a big way. But, does it drive bottom line results? It works. However, when you take a hard look at supply chains through a risk prism, which we do, we don't look at supply chains from a performance point of view.

The lack of buffer stock provides a vulnerability in the supply chain for any type of supply chain glitch. For example, in automotive, if a truck turns over on the way to the plant and another delivery for, let's say a hundred thousand 50 cent a piece springs isn't going to arrive until late the next day, most automobile assembly plants will close down and send people home within one, one and a half shifts. Why? Because everything is going directly on a repetitive basis right to the assembly line, and that is great performance.

But does that provide vulnerability and a risk to the assembly line? Yes, it does. So there is a paradox there. So to answer the question, I'll say yes, lean and just in time does run somewhat counter to the fundamentals of good risk management because of the identified vulnerability. However, yes, you can run lean and JIT effectively together with good risk management. It's a matter of trade offs.