LONGITUDES

Delivered by UPS

Risk Mitigation in the Supply Chain

Risk Mitigation in the Supply Chain

Fourth of a five-part series

By J. Paul Dittmann, Ph.D.
University of Tennessee

To manage supply chain risk in your company, you will have to develop a process to do three things: Identify, prioritize and mitigate risk. I've discussed the first two steps in this process previously on this blog, and today I'd like to focus on the last and most critical part of the risk management process: mitigation.

Because of its importance, I'm dividing the discussion of mitigation into two parts. With the help of recent supply chain risk research we conducted at the University of Tennessee, the first will focus on the most common strategies used to mitigate supply chain risk and how they are applied.

The second will specifically look at a real-world example of how insurance can be a strategic mitigation tool, as our research indicates that risk managers acknowledge this option as a sound approach, but often underuse and misunderstand its risk mitigation potential.

Risk Mitigation Strategies

The 150 supply chain executives surveyed for my formal research report, Managing Risk in the Global Supply Chain, use a variety of methods to mitigate their risks.

What goes into a risk mitigation plan? Clearly, such plans involve some art and some science. The plan should focus on significantly lowering either the probability of occurrence or the degree of impact of each high priority risk, and might also involve installing an early warning system. After all, like a serious disease, risks caught early can often be managed successfully.

To accomplish the three strategies outlined below lit is critical that your suppliers be enthusiastic about collaboration to accomplish the three strategies outlined below. Any unwillingness to do so mightshould be taken as a red flag.

1. Choosing the Right Supplier

The first-ranked strategy used to mitigate supply chain risk is to choose financially strong, competent world-class suppliers. This is easier said than done. Supply chain professionals tell us that it takes approximately two years to develop and fully certify a global supplier, and they must regularly reevaluate their suppliers, as business strategies often change with time.

Additionally, although potentially costly, some companies develop a second domestic source that can be quickly ramped up in the event another supplier cannot operate as planned.

2. Keeping Time on Your Side

The second-ranked mitigation strategy focuses on compressing global shipping time and cycle time variation.

Leading firms apply Lean principles and Six Sigma techniques to this effort. They map their company's global shipping process from end-to-end and look for ways to reduce or eliminate waste and delays at every step.

3. Taking Advantage of Tools

The third-ranked strategy used to manage supply chain risk involves the use of visibility tools to closely track global shipments and take action when necessary.

Leading companies use supply chain event management technology to send alerts to key personnel when action needs to be taken by someone, somewhere in the global supply chain to correct delays.

Logistics providers like UPS are also developing specialized services that combine package intervention and remediation, 24/7 proactive shipment monitoring, and parcel insurance to provide near real-time visibility and financial protection.

Some additional elements that companies routinely consider in their risk mitigation plans include:

Click image to download study

- *Insurance*: Firms need to work with insurance providers and create a plan to use insurance to mitigate risk where appropriate, based on an objective cost-benefit analysis
- *Reserve Inventory*: Some call this "the no-brainer" approach to mitigating risk. It is popular among small and large firms alike. This strategy can be costly, so having an appropriate financial strategy in place is critical. For example, a firm might have access to a flexible credit facility that allows funds to be advanced at many stages along the supply chain.
- *Disaster preparation*: Establish a crisis team that is responsible for making decisions and communicating those decisions throughout the supply chain. Run scenarios with the team ranging from the best case to the worst case and document consensus responses that can be used in real time.
- *Forward buying or hedging*: Hedging is a way for a company to minimize or eliminate foreign exchange risk, as well as the risk of commodity price increase.

According to our research, using insurance as a risk mitigation tool is ranked last among the research respondents. We believe this is a lost opportunity for supply chain professionals.

For this reason, my next article in this series will focus on how insurance can be applied as a strategic mitigation tool and how it could make sense for your businesses.

Paul Dittmann, Ph.D. is the Executive Director of the Global Supply Chain Institute at the University of Tennessee.