

Number One Procurement Priority Right Now should be Managing Supplier Risk

What if 30% of Your Suppliers went under in 90 Days? Advance Sense and Respond Systems are Key

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While many might think the number one job of the Chief Procurement Officer and his or her organization right now is to reduce the cost of purchased goods, materials and services, for many there may be an even higher priority: managing supplier (and hence supply chain) risk.

Obviously, the recession is putting the squeeze on the finances of many suppliers, both offshore and domestic. As a result, many companies are looking at various financial options for keeping key suppliers solvent and shipping (see [If Suppliers are Struggling Financially, What Should Procurement Organizations Do?](#))

Fred Heegan, vice president of purchasing for Takata Corporation in Michigan, says companies need to be thinking about fairly dramatic scenarios. Heegan, writing in the Institute for Supply Management's *Inside Supply Management*, says companies need to be asking themselves questions such as "What will happen if 30 percent of our supply base goes into liquidation or bankruptcy in the next 90 days?"

In addition to the overall drop in demand from the economic situation, Heegan says many suppliers are under even more pressure because some commodity prices are still high and suppliers are not able to pass these costs on to their end customers, "forcing more economic pressure to the bottom lines of suppliers across the globe."

Advice for CPOs

Heegan says Takata is using the following types of tools and strategies to get on top of and mitigate supplier risk:

Accounts payable managers, design and production engineers, and others may have additional insight into what the condition of suppliers are that can supplement the assessment of the procurement organization.

- Use of outside financial or accounting companies to obtain detailed financial data for key suppliers to summarize and categorize them into high, medium or low financial risk levels. For private companies, getting this data may not be easy. Heegan suggests setting up a program where the data is given to a third party accounting firm, which will do the categorization without sharing the specific numbers. The summary reports from the accounting firm can then be used to develop strategic sourcing commodity strategies, including "detailed plans to exit the relationship, assist suppliers predicted to fail and grow business with your healthy suppliers."
- Practice *sangen-shugi* (actual place, actual product, actual situation). A form of "management by walking around." Get out to suppliers and walk the shop floor to see how things look; talk to the plant manager, etc. This is especially true for suppliers showing any problems (quality issues, late shipments, etc.)

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- Obtain softer "sensing" data from employees at your company who interact with suppliers. Many people in a company may interact with suppliers besides procurement managers. Accounts payable managers, design and production engineers, and others may have additional insight into what the condition of suppliers are that can supplement the assessment of the procurement organization.
- Get ahead of the metrics. "Supply management professionals must completely study their internal supply chain metrics, focusing more attention on supplier delivery and quality data as potential indicators of instability and mismanagement issues," Heegan says.

The bottom line is that supply management executives must take bold action and clearly communicate to the organization the steps that are needed.



"Supply management leadership must minimize any surprises from suppliers going upside-down and disrupting production lines. Everyone must realize that disrupting your customer's production lines could have very serious negative consequences," Heegan concludes.