

The Supplier Conundrum in Tough Times – Reducing Buyer Risk can out Troubled Supplier over the Edge

“Unvirtuous Cycle” needs to be Monitored Closely

SCDigest Editorial Staff

In these challenging economic times, many companies are very focused on the health of their supply bases, especially for strategic supplies.

That means doing a lot more financial due diligence on the financial health of suppliers – and taken mitigation strategies to reduce risk as needed.

In many case, companies may decide to pull purchase volumes away from an existing supplier that is deemed to be in jeopardy. That’s especially true if a company is sole sourcing to that supplier for a given component or product, and the failure of that supplier could lead to a major supply chain disruption. But it could also be true in a dual or tri-sourcing arrangement, where the other suppliers for the product may in some cases not be able to rapidly pick up the slack (though of course most manufacturers have excess capacity right now).

One challenge supply managers have to deal with right now? The very supply risk mitigation strategies they pursue could become self-fulfilling prophecies, as the loss the business becomes the last straw the breaks the financial back of the supplier.

SCDigest recently spoke to one large manufacturer that has already seen that happen in a few cases.

“We’ve had to protect ourselves and reduce risk in several cases, and I think in a couple of those the lost volume from us certainly was a factor in a supplier not being able to make it,” a director of supply chain for the company told us.

This becomes an “unvirtuous cycle,” reinforcing the negative. A supplier is identified as potentially trou-

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bled, causing the company to pull some business, which causes the supplier to be more financially troubled, so that more business is pulled, etc.

Companies need to be sure they are looking at the risk scenario most appropriately. Is the risk greater by keeping a given level of business with a troubled supplier, or precipitating its failure and total loss of its supply by pulling business?

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“In the end, you have to look after your own interests, but I think you need a real dialog with those suppliers,” the supply chain manager told us. “You need to be upfront about your inclination to pull some volumes, and the supplier needs to be upfront about the impact that would have. Hopefully, you can reach a common ground.”