



Risk Avoidance & Mitigation using Strategic Sourcing

A Firm Foundation is the First Step

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Background

- 45 Years in the Profession
- Served with Mercrusier, Fram/Bendix, Johnson Control, Holley Automotive, Emerson, Macklanburg-Duncan, Consulting (last 6 years with RGP), now Alliance Data
- Traveled 48 States and 31 Countries in Search of the Supplier for Parts/Assemblies & Services
- Served as National Chair of Materials Management Group and Global Group as well as various Affiliate Positions

Risk Avoidance & Mitigation

- Setting a Firm Foundation is Critical in any Building
- Selection of the Best Supplier Includes Careful Review
- Methods to Evaluate Potential Suppliers

Firm Foundation

If Building a...

- Reputation
- Building
- Relationship
- Risk Protected Supply Chain

First you have to ...

- Establish Defined Results You Want
- Check the Basic Criteria
- Confirm Each Step and Result
- Confirm You have Similar Expectations (with owner/supplier)

Foundation Issues



- RFQ Results
- Supplier Survey
- Supplier Visit
- Confirm Requirements Expected
- References (if available & helpful)
- Full Disclosure of Concerns

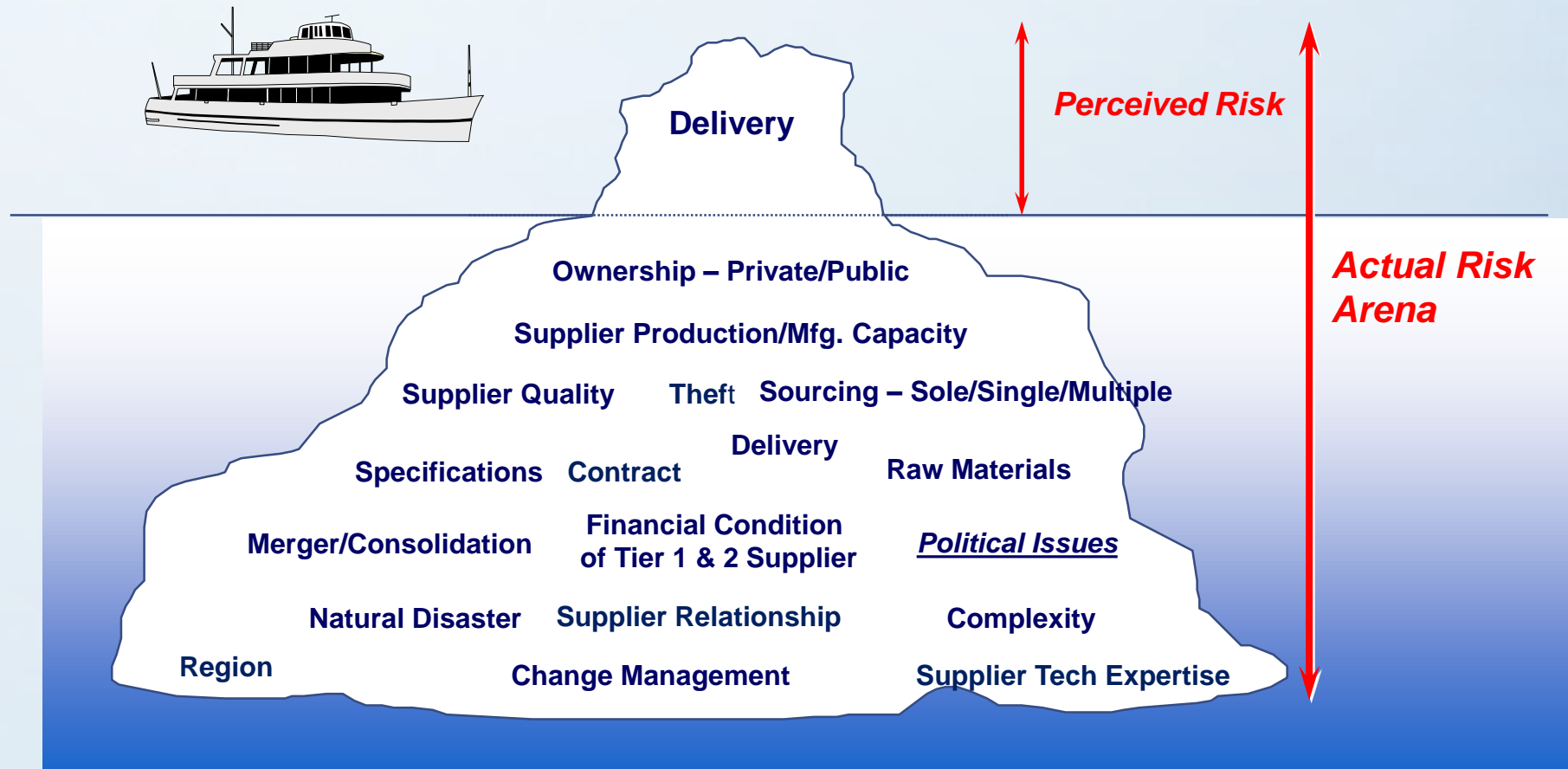
Supplier Selection

- Define Best Supplier - what do they bring to the table
- Functional Requirements - tolerance for differences
- Capacity - do they have the machines/manpower
- Capability - do they know what to do, have done it
- Future Goals Align - where do they plan to go
- Key Players - long term, young, skilled, knowledgeable

Risk in the Supply Chain

As in Life, Risk is in many aspects and areas of our Supply Chains.

This illustration shows just the tip of the Risk 'Iceberg', how much more have we failed to clearly address or identify?



Supply Chain Risk in the Headlines

Topics in the news indicate just how broad the exposure to risk in the Supply Chain really is:

- Hurricanes Katrina, Sandy, & Matthew
- West Coast Port Strikes (1997 & 2002 & 2015)
- Bhopal 1984 - 15,000 dead
- Chernobul 1986 - ? Dead ? Relocated How Many
- Mattel-China Lead Paint
- Japan 1995 & 2010 Earthquake
- OPEC and Oil
- Congo Cobalt - Conflict Minerals
- 2010 Iceland Volcanic Ash
- Early 2008 Snow Storms in China
- Hanjin Bankruptcy
- Takata Airbags
- Samsung Galaxy Note 7
- 9-11 & Terrorists Activities
- Child labor issues in Low Cost Countries
- SARS / Bird Flu / H1N1 Virus
- Political Instability - Venezuela
- 1997 UPS labor strike
- Sub prime home loans
- Events of Wall Street Fall 2008
- Salmonella in Tomatoes, Peanut butter, Eggs
- Listeria in Blue Bell Ice Cream
- Deepwater Horizon

OTHERS?????

Political Risk

Conflict Minerals (started in EU)

- Headlines concerning the Requirements and When (?)
- Requirement to dig deep into Supply Chain to confirm

Modern Slavery Act (in place in UK) - for now

- Requires digging deep into Supply Chain to confirm
- Like many Hot Buttons in Politics, it will just be timing before it is in the USA

How to Avoid Risk or Mitigate It

- Review Potential Suppliers Before RFP/RFQ
- Questions Asked
- Questions Not Asked
- RFP/RFQ Review
- Evaluation of Leading Quotes/Proposals
- Delivery History (If Available)
- Technology
- Similar Size Customer History (If Available)
- Management Stability
- Leadership Stability
- Financial Stability
- Currently Providing Similar Parts or Services
- Open Capacity
- Local Skills Available

Others Concerned with Risk

- How does this part or service Impact Target Sales Market?
- How does it meet or exceed Customer Expectations?
- Does it or components originate in Unstable Region?
- Don't Focus only on Volume, what other critical components should be watch more closely?

Example - Financially Stable Supplier

<ul style="list-style-type: none">• Ownership Structure Established	<ul style="list-style-type: none">• Lower-Cost Competition Threat
<ul style="list-style-type: none">• Labor Union or Non-Union	<ul style="list-style-type: none">• Return Ratio
<ul style="list-style-type: none">• Insurance Coverage (US)	<ul style="list-style-type: none">• Reportable OSHA or EPA Incidents
<ul style="list-style-type: none">• Payment History to Suppliers	<ul style="list-style-type: none">• Profit Margin Target
<ul style="list-style-type: none">• Credit Rating	<ul style="list-style-type: none">• Patents/Rights Issues
<ul style="list-style-type: none">• Revenue Stable and Growth Outlook	<ul style="list-style-type: none">• Bankruptcy

How to Continue to Control Risk

- **On-Going Monitor or all Suppliers**
 - **Financial Condition**
 - **Leadership**
 - **Equipment Condition**
 - **Delivery**
- **Develop KPI's for every key supplier**
 - **What makes them Great? Good? Bad?**
 - **This applies to Service and Parts Suppliers**
 - **Once developed, MONITOR them !**
- **Don't Create a System that is Too Technical**
 - **No Risk, Medium Risk, High Risk, Risk Event**

Data and Information Sources

- D&B for Domestic Organizations
- Letter of Credit Line from their Bank
- Face to Face Visits AT THEIR PLACE OF BUSINESS
- If Global;
 - World Bank
 - United Nations
 - Transparency International
 - WHO
 - MuchichRE
 - CIA WorldFactBook

Summary

The MOST Critical Action in Supply Chain Stability is Sourcing

Complete Review of a Supplier Before PO is issues Critical

Review Typically Requires a Face to Face visit at their Site

This is just the beginning of Sourcing, to Check about a new Supplier and to Continue to Monitor about all KEY Suppliers





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Happy You Joined Us This Month