It's time to *really* see your supply chain.

Leveraging Market Intelligence to Better Manage Supply Chain Risk

A LexisNexis® White Paper

Highlights

Supply chains have become more complex and global in scope. The patchwork of regulatory and reporting requirements, coupled with increased outsourcing, subcontracting, rising security threats, safety requirements, financial vulnerabilities and natural disasters, has made it more difficult than ever to fully assess supplier risk.

Research has shown that the potential impact of supply chain disruptions can be serious and measureable, including reduction in share price by as much as seven percent and significant material effects on company value.

Suppliers that are further removed from the company's immediate primary suppliers pose a major supply chain risk with almost 40 percent of reported supply chain disruptions originating with "Tier 2" and "Tier 3" suppliers.

Traditional sources of information used to monitor supply chain risks such as financial scores, background reports and the occasional Google™ searches are no longer sufficient on their own because they are unable to uncover potential supplier business issues in near "real time."

The good news is there are emerging business information tools now available to supply management professionals that use leading-edge business information to closely monitor key suppliers and create an "early warning" system for potential supplier risks across a range of categories including political, economic, societal, technological, legal and environmental.

Overview

Supply management professionals at companies in a wide range of industries are increasingly facing the daunting challenge of improving compliance and proper certifications of suppliers throughout their supply chain with the need to reduce costs. It's a vexing dilemma and, unfortunately, one that can often lead to supply chain disruptions when a problem flares up with a key supplier that was cutting too many corners, out of compliance with safety regulations or suddenly shut down because they couldn't make payroll.

The good news is there are emerging business information tools now available to supply management professionals that can help them closely monitor their key suppliers and create an "early warning" system for potential supplier risks. This information allows businesses to better anticipate and manage risks to the supply chain, reducing the chance they will suffer business disruption, legal consequences or damages to their brand caused by a lack of visibility into supplier risk.

Risks to the Supply Chain

For companies in virtually any industry that requires the manufacturing of goods, supply chains are the lifeblood to economic success. In recent years, supply chains have become more complex and larger as the drive for efficiency has led to increased outsourcing, sub-contracting and the search for lower-cost providers. At the same time, companies are increasingly being expected to manage these suppliers in light of rising security threats, safety requirements, financial vulnerabilities and other compliance matters that could affect their operations. When you tack on to that daunting challenge the inevitable threats of natural disasters and extreme weather, it becomes clear that supply chain risk is higher than ever before.

Supply management and procurement professionals saw a pair of graphic examples of this level of risk in late 2012. In September, a fire broke out at an apparel factory complex in Karachi, Pakistan, tragically killing more than 300 workers—many of whom died because exit doors from the shop floor were either inaccessible or padlocked, blocking their escape routes. Officials at Western companies were stunned when they learned that, just one month before the tragedy, this same factory complex had received a prestigious certification awarded by a global non-profit organization. This certification—SA8000—is the benchmark used by supply management professionals at many Western companies as confirmation that their overseas suppliers are in compliance with international standards in a wide range of areas including health, safety, child labor and minimum wages.[1]

Then in November 2012, a similar fire erupted at an apparel factory in Bangladesh, tragically killing 112 workers—again, many of whom were unable to escape due to locked doors and windows. Journalists on the scene who were literally sifting through ashes and charred clothing labels identified a number of prominent customers being supplied by that factory. Supply management officials at those companies were surprised on many levels, but the most stunning was the discovery that the Bangladesh factory was even manufacturing clothing for distribution in their stores. Two prominent U.S. retailers caught up in the story—Walmart and Sears—later reported that the factory was not on their approved lists of apparel sources, but authorized suppliers had apparently outsourced the work in an attempt to reduce costs.[1] In April 2013, Walmart said it was responding by donating $1.6 million to the Institute for Sustainable Communities (ISC) to help set up an Environmental, Health and Safety Academy in Bangladesh to train both workers and managers, and that it has engaged Bureau Veritas, a European testing and inspection company, to assess factories and train workers on its behalf in Bangladesh.[2]

Of course, supply chain risk isn't always as tragic and is rarely as high-profile in nature. Virtually every day, there is at least one supplier for any given company that is dealing with a threat to their business. More common and less publicized examples include a power outage, labor unrest, cyber crime, local political scandal or bank finance problem. These types of potential supplier problems can fly under the radar of most supply management professionals, but can lead to major business issues that ultimately flare up into supply chain disruption, legal issues or damages to their reputation. By that time, it's too late to prevent the damage to the company.

Potential Impact on the Business

The potential impact of supply chain problems is serious and measurable. In 2012, a team from Accenture Management Consulting[3] worked with the World Economic Forum to explore key actions for developing dynamic supply chains by building agile, transparent and diversified systems. Their research found that significant supply chain disruptions reduce the share price of the affected company by as much as seven percent, on average. Moreover, a study published in 2012 by Harvard Business School®[4] confirms that supply chain disruptions can have a material effect on company value. Given this reality, it's no surprise that 80 percent of companies worldwide see better protection of their supply chains as a priority, according to the Accenture research.

Unfortunately, this challenge of better supply chain risk management is complicated by the fact that modern supply chains are now truly global in their scope and far more complex in their nature. The patchwork of international, national and local regulatory and reporting requirements makes it more difficult to fully assess the risks associated with the failure of any single supplier, but the reality is that these vulnerabilities must be identified if they are going to be managed. The sudden closure of a supplier that was presumed to be subject to local government inspection and monitoring is no less disruptive to the corporate supply chain than a supplier known to have potential problems that had already landed them on a global watch list.

In fact, those suppliers that are further removed from the company's immediate major suppliers pose a major supply chain risk. A survey by the Business Continuity Institute[5] found almost 40 percent of reported supply chain disruptions originated with "Tier 2" and "Tier 3" suppliers. The lesson is that supply chain problems can come from virtually any supplier in the world at any time.

Emerging Technology Tools to Mitigate Supply Chain Risk

These are clearly significant challenges with serious potential business implications, but the good news is that there is a new generation of tools in the market to help supply management professionals better mitigate risks to their supply chains. At the forefront of these new tools are emerging business information solutions that provide timely insight into potential problems at specific suppliers.

Of course, the idea of monitoring suppliers with business information services is not new. Traditional sources of information used to monitor supply chain risks include financial scores, background reports and, in the past decade or so, occasional Google™ searches. While these methods still have value, they are no longer sufficient on their own because they are unable to uncover potential supplier business issues in near "real time" and while they're still in their infancy.

What is needed now is visibility into news and information reported about suppliers in third-party news media sources. This information can be used to identify potential areas of concern with an individual supplier before one of them flares up into a serious supply chain disruption. For example, supplier intelligence can identify risk factors such as legal problems, compliance issues or government sanctions.

One recent study by LexisNexis[6] sought to determine whether this kind of market intelligence could be helpful in identifying early warning indicators of a company potentially headed for bankruptcy. The study looked at 23 failed companies and analyzed more than 90,000 news articles written about the companies in the run up to bankruptcy. The conclusion was that market intelligence was able to identify early warning signs of risk—such as news stories mentioning insolvency, bankruptcy, liquidation, dismissals or profit warnings—in more than 80 percent of the sample companies researched. In more than half of the companies researched, the early warning signs were either "strong" or "very strong" and warning signs could be clearly seen six months before companies reached bankruptcy, with the signs becoming more pronounced the closer the companies got to failure. Notably, these early warning signs of risk were not present in healthy companies.

This is serious business. While financial scores can be helpful in making quick decisions about suppliers and their financial health, financial scores are, by nature, retrospective. By the time a company has stopped paying their bills and their financial score has changed, it's often too late to mitigate. A supplier bankruptcy can quickly translate into supply chain failure—and an average 50,000 companies a year file for bankruptcy in the U.S. alone.

The truth is that most companies just don't have proper access to the often obscure, international data sources needed to foresee these kinds of supplier risks. That makes it essential for them to obtain better up-front business intelligence about news and trends related to their supply chain risks around the globe—and especially the lower tiers of that supply chain.

Putting LexisNexis SmartWatch® to Work

LexisNexis SmartWatch® is a next-generation monitoring solution for supply chain risk management. It provides a visual dashboard and alerting tool that leverages a wide range of market intelligence not available on the open Web and draws from news sources not monitored by other business information services.

LexisNexis SmartWatch is powered by the LexisNexis database, which is a vast collection of premium-licensed content that includes more than 26,000 global news sources. The archive dates back 35 years, with millions of new and updated documents loaded every day directly from publishers. By focusing on authoritative sources of news and business information, LexisNexis users are able to avoid the "noise" and content credibility gap that can be associated with content from the open Web and quickly access relevant business information. This includes news publications, industry and trade journals, legal and regulatory publications, business journals, analytical sources and robust information on private companies beyond what they self-report.

The LexisNexis SmartWatch tool applies proprietary algorithms that automatically prioritize search results to identify risks most relevant to the business and then displays those risks within a color-coded dashboard. This allows supply management professionals to quickly scan their entire supply chain and pinpoint problem areas for further investigation and follow-up. Armed with this dashboard and alerting tool, companies are better positioned to anticipate and manage risk, monitor the supply chain more efficiently, and gain better visibility and intelligence into potential supply chain disruptions.

This use of leading-edge business information tools makes a huge difference. In fact, a 2012 study by Aberdeen Group[7] found that organizations using third-party business information to monitor their supplier base had 33 percent fewer suppliers who experienced catastrophic failure. And remember the tragic story about the apparel complex fire in Bangladesh? A quick use of LexisNexis SmartWatch uncovered more than 50 stories that in hindsight could have served as warning signs to companies that there was a clear risk of major fires, including a story published just prior to the fatal blaze that reported a gap in the implementation of fire safety plans in Bangladesh factories.

LexisNexis SmartWatch is at the leading edge of a new breed of business information tools that are empowering supply management professionals to bring more discipline and focus to the crucial objective of minimizing supply chain risk.

Start really seeing your supply chain

To learn more about LexisNexis SmartWatch visit www.lexisnexis.com/smart-watch or call 800-227-4908.

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