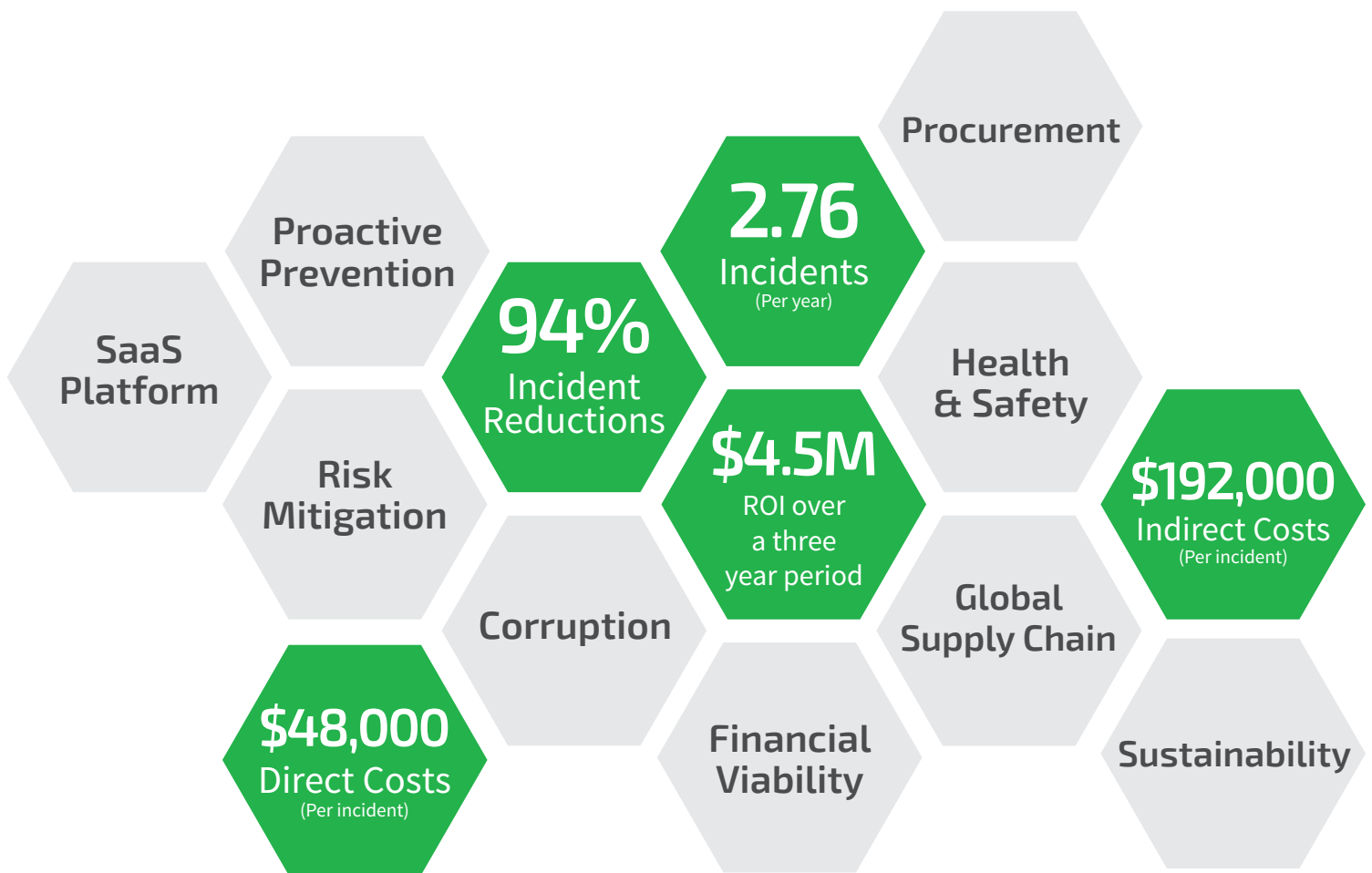


Four Steps to Building a Global Supply Chain Risk Management Platform



Predicting the future is impossible. De-risking it is not.

A global supply chain is full of different types of risk. These risks range from the minor “bump” in the road to a life-threatening or company disaster. But many of these risks can be mitigated, and even eliminated, if your organization takes a proactive approach to identifying and understanding the possible causes, and direct and indirect effects of these risks.

The **first cornerstone** to successful supply chain risk management is understanding which risks are out of your control, and which are actually controllable. Economic recessions, natural disasters and political instability are uncontrollable, but you can control how your company reacts to them.

The **second cornerstone** is having a formal corporate crisis communication and action plan in place, which if done properly, can minimize operational downtime

and reduce financial loss. It may also prevent additional injuries or fatalities among your employees, contractors, suppliers and customers.

The **third cornerstone** represents the importance of identifying and managing those risks that can be proactively mitigated, such as employee health and safety, corruption and contractor and supplier financial viability.

The **fourth cornerstone**, effective, cloud-based management of your company’s ever-changing supply chain, can prevent these kinds of risks from ever occurring, or decrease the impact that these incidents might have on your bottom line when they do occur. The good news is that you have more control than you might think with a SaaS solution, even in a global setting, with cross-cultural, political or environmental challenges.

Corruption, for example, is a common risk in the global marketplace. A typical corruption-related scenario might include a corporation with little or no control over which contractors get awarded work, or if that work is authorized based on hidden agendas that benefit the procurement officer either financially, or

personally. Things can go wrong, and when they do, the documented process is simply not available to support the decision. The contractors must be systematically managed, while leveling the playing field for a standardized, consistent approach for awarding work.

A Case for Financial Solvency Verification

An American-based refinery was performing a unit shutdown that was scheduled to last for two months. The unit was critical in the production of the refinery's most profitable and highest quality products. Any downtime would have a significant impact on revenue, profit margin and customer satisfaction. It is not uncommon for a typical refinery to lose up to \$1M in revenue each day the unit is down, due to repair, maintenance or refurbishing. As such, efficient turnaround time is absolutely vital to a refinery's survival.

The shutdown came upon the refinery unexpectedly, and the company was forced to quickly hire several contractors outside of their existing approved vendor list. This presented some very real challenges in acquiring accurate information about each contractor's financial stability and levels of competency in performing a project of that size and scope.

As a result of hiring contractors with inaccurate and or incomplete records, the refinery experienced several challenges, including the following:

1. Multiple safety incidents that slowed down, or stopped maintenance completely.
2. Several contractors showed up with improper equipment and /or tools to finish the job and did not have the necessary money to purchase the correct equipment.
3. A large number of contractors existed that could not provide the promised resources to complete the job on time.

Most of the issues were due to the financial instability of the contracted companies. When entering into a lump sum agreement, contractors are paid the majority of the fee at the completion of the job, not as they go. Ultimately, the completion date of this job was delayed by more than two months. The refinery experienced multi-million dollar losses in direct and indirect costs. If a supply chain risk management organization such as PICS® would have been used, and the requisite enforcements were in place, operators of this facility could have foreseen the financial shortcomings of these contractors, made better procurement decisions and perhaps finished on time and on budget.

Lack of Due Diligence Can Cause Far-Reaching Environmental Incidents

The impact of unmitigated risks can go beyond the actual work site, and affect other people, companies or communities. This is particularly common with environmentally-related incidents. To illustrate, we turn to a project in which a manufacturer attempting to ensure that only storm water travelled through the underground pipes, hastily hired a contracted company to prevent contamination of the sewers and drainage ditches of the refinery. However, a leak occurred and the drains became contaminated with hydrocarbons and other byproducts of the plant. The contractor, who was significantly underqualified for the project, made some vital mistakes and the water contamination extended beyond the refinery property and into the city sewers, where both the local fire department and EPA discovered the hazard. The manufacturer received substantial fines and other consequences due to the contractor's inability to deliver what was promised. Had the manufacturer utilized a supply chain risk management solution, then proper prequalification measures would have been taken, a more qualified contractor would have been hired, and this unfortunate event would not have happened.

INDIRECT COSTS

- Revenue loss from brand damage
- Insurance premium increase
- Employee down time
- Contractor/Supplier down time
- Production delays
- Ongoing medical expenses
- Penalties, fines, citations levied

DIRECT COSTS

- Damaged goods and materials
- Machinery repair
- Insurance deductibles
- Emergency service costs
- Employee medical expenses

“The benefits of preventing a potential loss or incident far outweigh the direct and indirect costs associated with managing a realized event.”

- Dennis Truitt, H&S Executive, Risk Mitigation Expert and Author

The absence of an adaptive risk management platform can present a myriad of direct and indirect costs that could have been avoided if the company engaged in proactive prevention instead of reactive “clean up.” In fact, a recent OSHA study shows that the average contractor experiences **2.76** incidents per year, with a direct cost of approximately **\$48,000** and indirect costs of **\$192,000** per incident (OSHA, 2013). The boxes above illustrate just a few of the possible direct and indirect costs that can add up when an unmitigated incident occurs.

2.76 Average Number of Incidents Per Year

\$48,000 Average Direct Costs

\$192,000 Average Indirect Costs

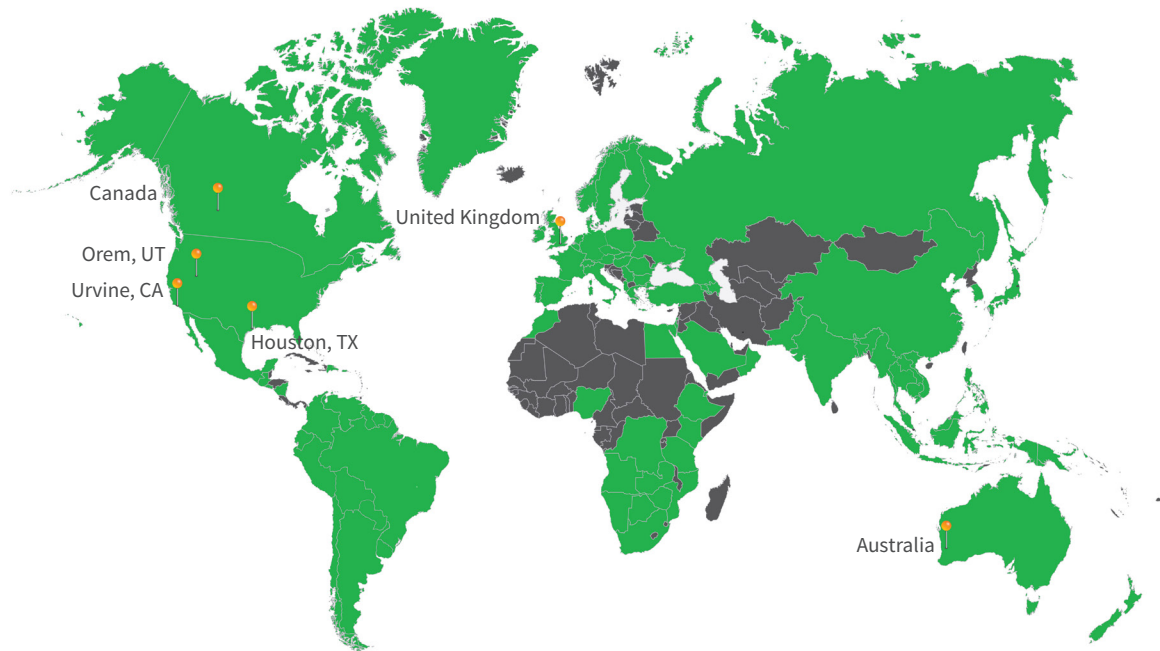
When a company employs a proactive risk mitigation program, it presents a very different, and much more favorable, outcome. While there is no guarantee that these risks will be avoided, statistics and history irrefutably demonstrate that a rigorous contractor prequalification program can significantly decrease the chance that incidents occur up to 94%. In the event that an incident does occur, the costs involved with each incident are drastically lower (OSHA, 2013). Investment in a risk management program can also present a very impressive ROI—up to \$4.5 M over a three-year period (OSHA, 2013).

▼94% Incident Occurance

\$4.5M Potential ROI

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A global marketplace presents a complex set of challenges, especially when attempting to maintain a safe and sustainable working environment for your employees, contractors, and suppliers. A minor detail, if left unresolved on the front end, can explode into a financial or operational disaster. But the implementation of a world-class risk mitigation solution

can save time, money, and even lives. It's critical to have the plans, resources, and technology in place that verify credentials, measure financial stability, and encourage sustainable business practices. A proven supply chain risk management partner can ensure that your program is configured efficiently, intuitively, and effectively.

RECAP

Four Steps to Building a Global Supply Chain Risk Management Platform

- 1 Identify the global supply chain risks that are out of your control.
- 2 Develop a crisis communication and action plan for minimizing downtime, financial loss and brand damage due to the uncontrollable incident.
- 3 Identify the global supply chain risks that you **can** control.
- 4 Proactively prevent or mitigate the controllable risks.

Avetta provides a cloud-based supply chain risk management platform. Our global solution is uniquely designed to connect the world's leading organizations with qualified suppliers, driving sustainable growth. Our SaaS subscription software is used by 50,000 active customers in 100 countries. We build trustworthy bonds through responsive technology and human insight. Our process is collaborative, and our global reach is complemented by our local expertise. Over 300 of the world's biggest organizations depend on Avetta to align their supply chains to sustainable business practices.



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