
SUPPLYCHAIN

MANAGEMENT REVIEW



MAKING THE CASE FOR

PROACTIVE SUPPLIER RISK MANAGEMENT

Your supply chain is only as strong as its weakest link



Even the companies that do conduct due diligence and monitoring of their direct vendors aren't doing enough to protect themselves from supply chain risk.

AS THE WORLD'S SUPPLY CHAINS get longer, more intertwined, and more complex, organizations of all sizes and across all industries have been forced to take a harder look at who they're doing business with and why.

Add the uncertainties and volatility of the global environment to the equation, and keeping close tabs on the *entire* supply chain becomes even more difficult. As highly-visible companies like Chipotle, Samsung, KFC, and GM have learned over the last few years, a company is really only as strong as its weakest supply chain link.

"The growing volume and widening range of transactions in global supply chain networks have weakened global geographic barriers and amplified company exposure to issues that were once considered distant threats," PwC reports in *Needle in the haystack: Monitoring vendor networks through supply chain risk analytics*. "Not only are companies at risk, but also, increasingly, leadership and board members are being held accountable for their companies' supply-chain-related regulatory breaches."

Finding the needle in the haystack

Whether it's a supplier that can't fulfill its obligations, a partner that goes out of business, or a contractor that can't meet

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the requirements that your firm sets forth, these and other disruptors can literally bring your organization to its knees.

The problem is that no organization can be an expert in everything or closely watch the entire supply chain *without extra help*. That's why companies are increasingly turning to data analytics, reporting, and third-party partners to help manage their supply chain risk profiles and minimize the potential for disruption.

Even the companies that *do* conduct due diligence and monitoring of their direct vendors aren't doing enough to protect themselves from supply chain risk. In fact, the often-overlooked Tier 2 and Tier 3 vendors are frequently the ones that can wreak the biggest, and most unexpected, havoc on today's global supply chains.

“Companies must safeguard themselves against vendors' vulnerabilities—especially with regard to information security—across their *entire supply chains*, extending from their direct vendors to secondary and tertiary suppliers, service providers, and shippers,” PwC points out. “The situation demands that executives carry out a

progressively difficult mission: to reduce risk while sustaining rapid decision making and to price competitively as they meet global demand.”

Achieving that balance isn't always easy in a business world where companies are at varying

stages of the risk management evolution scale. Put simply, some organizations are very advanced, others lie somewhere in the middle of the spectrum, and still others are

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lagging far behind.

“Right now, we're seeing a lot of firms that are in the middle,” says David Carter, Avetta's director of digital marketing, “and trying to find a way to use software-as-a-service [Saas], technology, solutions, and various tech-enabled services to create comprehensive risk management programs.”

Attacking supply chain risk head-on

When it comes to supplier risk management, many companies are being held back by their own data management approaches. In many cases, that data isn't organized, scrubbed, and routed

to the appropriate people within an organization (e.g., the procurement professionals who work directly with the suppliers in question), for example, and it basically just sits dormant *waiting* for a problem to happen.

“Companies should find a system that creates high levels of data visibility across functional groups within the organization,” says Gabe Flores, director of product marketing at Avetta.

The good news is that it's not too late to develop a proactive approach to supplier risk management that not only protects your company from the inevitable, but also helps to create a streamlined, reliable global supply chain on which customers can rely.

In this Making the Case report, we explore the processes and capabilities that supply chain managers can use to identify waste, fraud, disruption, and other anomalies that can negatively impact their supply chains and hear how modern predictive analytics is helping organizations create effective risk mitigation models that “win” in any business environment.

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A comprehensive, centralized approach to supplier risk management

Understanding the potential risks in the supply chain isn't getting any easier in the current business environment, where supply chain managers must be able to gather appropriate supply chain data; identify waste, fraud, and other anomalies that represent risk patterns; and leverage predictive analytics to create effective risk mitigation models.

For example, a company with supply chain analytics and weather intelligence needs to know which of its suppliers are at risk of experiencing a disruption due to severe weather. With that knowledge in hand, alternative suppliers can quickly be added to the supply chain to help reduce that risk.

Varying environmental conditions are just one challenge of a global supply chain. Operations and processes may also change from region to region, making it extremely difficult to identify problems before they occur (or, at least before they impact your operations).

Complicating the situation even further, requirements change constantly as products travel across the supply chain. Having a comprehensive, centralized platform to help ensure product and regulatory compliance has become a must-have, yet many companies opt to handle the task manually—or, on a case-by-case basis as the problems occur.

What is supplier risk management?

By definition, supplier risk management refers to the process of vetting suppliers against specific criteria that could include safety, insurance, financial, legal and sustainability data, and then using that data to make better business decisions about who to work with and when, thus reducing risk.

There are also industry-specific issues to consider.

A general contractor that's hiring subcontractors to handle the various aspects of a construction project, for instance, will want to know if those subcontractors have experienced

any major employee injuries, recorded any fatalities, or been issued any OSHA citations in the last X number of years. "When you don't know these things," says Nate Carr, Avetta's senior director of sales operations, "it can put your company in a very precarious position."

By connecting organizations with qualified **SUPPLIERS, CONTRACTORS,** and **VENDORS**, **AVETTA'S CLOUD-BASED SOLUTIONS** for supply chain risk management assist with the **PREQUALIFICATION** of contractors and suppliers

Providing **HIGH LEVELS OF VISIBILITY** through a combination of **CLOUD-BASED TECHNOLOGY** and **HUMAN INSIGHT**

used by **more than 50,000 CUSTOMERS** in over **100 COUNTRIES**

The infographic features icons for buildings, a cloud, a calculator, a hammer, a globe, and a magnifying glass, all in shades of green and grey.

Unfortunately, that data isn't always readily available, nor is it well organized or streamlined in a way that makes it easy to access and use. By using a supplier risk management platform, however, companies can gain instant

and human insight, and are currently used by more than 50,000 customers in over 100 countries.

The platform provides insight into how suppliers add risk to the supply chain, thus allowing businesses to make data-

reviews available to all potential partners. So while any supplier might be credentialed to perform a service, post-work evaluations give users insight into the quality of their service and whether (or not) this is a company that they should be doing business with.

Whether it's reducing the hassle of procurement, verifying compliance, or managing the health and safety practices of the supply chain, a comprehensive supplier risk management platform like Avetta allows you to:

- **Manage risk with supplier prequalification**, auditing, and employee-level qualification and training.
- **Streamline contractor management** with easy-to-use document management.
- **Identify compliance deficiencies** ahead of time to make sure your supply chain is never caught off guard.
- **Reduce disruptions** caused by health and safety gaps by pinpointing them early.
- **Make better procurement decisions** with annually updated and verified supplier information.
- **Meet your sustainability goals** with evidence that your supply chain partners are prioritizing their corporate and social responsibility.

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access to the solution's analytics, data, reviews, and other elements that enable fast and accurate supplier evaluations—all without having to do the actual legwork.

"Companies get to see the results without all of the manual labor that goes into the verification and collection of the data and intelligence," says Carr. "Instead of spending an inordinate amount of time evaluating individual suppliers, companies can put more time into determining whether they meet their new supplier requirements and, if they don't, then what course of action should be taken."

Connecting organizations with qualified providers

By connecting organizations with qualified suppliers, contractors, and vendors, Avetta's cloud-based solutions for supply chain risk management assist with the prequalification of contractors and suppliers. They provide high levels of visibility through a combination of cloud-based technology

driven decisions on which suppliers to keep (and which to replace).

Avetta's supplier review function, for example, identifies suppliers that present relatively high levels of risk (e.g., a hazardous chemical disposition company that isn't meeting safety compliance requirements) while also monitoring those that may need less oversight (a maker of watch bands).

However, if the watchband supplier was recovering from a recent supply chain disruption, then its customers can use the platform to verify that the cause of the disruption has been addressed.

Streamlining the supplier selection process

Avetta's cloud-based platform also allows users to evaluate suppliers after work has been completed and makes these

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Combined, these benefits help companies develop solid, data-centric supplier risk management strategies that can be duplicated across the entire organization and used with multiple vendors, suppliers, contractors, and third parties.

It’s time to break down the silos

Over the last two years, companies have become increasingly conscious of their “silo’ed” ways and are working to break down the walls and get key departments communicating and collaborating with one another.

This can only help the supplier risk management proposition, which is highly reliant on strong collaboration among key stakeholders. “If people in compliance, procurement, safety, and operations are all accessing and updating the same information,” says David Carter, director of global marketing at Avetta, “you’ll not only have better data, but also greater visibility of that data. This translates into better decisions and less supply chain risk.”

As cross-business unit interactions continue to flourish in Corporate America, individuals who think beyond the

basic scope of their responsibilities contribute high value to their organizations. “It’s about understanding individual risk areas, and then sharing that information for the broader good of the company’s developing risk profile,” says Carter, “as opposed to looking narrowly at individual, silo’ed risks.”

One way to overcome this challenge is by leveraging a supplier risk management platform that can share data that’s derived internally from an organization while also utilizing external tools that address issues like governance, risk, and compliance.

The more data that different business units can see, review, and share, the better the individual risk profile and related decision-making becomes. Add best practices to the supply chain risk mix, and the end result is a supplier risk management solution that goes above and beyond what any single piece of software can provide.

“These elements come together to create a multifaceted approach to supplier risk management,” says Carr, “that includes everything from prequalification to picking up on lagging indicators to making decisions in real-time—all of which come together to create a holistic formula for supplier risk management.”

SUPPLIER RISK MANAGEMENT IN ACTION: **Bringing supplier screening onto a single, centralized platform**



Organizations that hire and employ contractors and suppliers need professional and responsible people who can do the work. They expect that their contractors will follow safety policies and procedures to ensure that safety incidents are avoided. The problem is that while the benefits of outsourcing to suppliers and contractors is clear, the associated risks are largely unseen.

Adding fuel to the fire, the breakneck pace of change and the pressures of financial reality can cause important, risk-mitigating considerations such as contractor safety to be overlooked.

To minimize risks and ensure proper compliance with all contractors, organizations like Entergy are turning to contractor and supplier management solutions. An integrated energy company that produces electric power for the southern U.S., Entergy has been using Avetta's platform since 2017, right around the time that John Mekins, senior safety specialist, joined the organization.

From manual to automated

In his past position as a safety program manager for a large construction project, Mekins handled a lot of manual contractor screenings. “I had to screen everyone before they came on the job, either giving them an ‘OK’ or telling our guys that they had to find someone else to work with,” Mekins says. “There were a lot of hours spent on that, and a lot of back-and-forth phone calls and e-mails requesting more information.”

Upon joining Entergy’s safety team, Mekins says he was pleased to hear that the company was in the early stages of integrating Avetta’s supplier risk management platform.

With more than 40 power plants under its portfolio—each of which was handling the contractor screening process a little differently—Entergy wanted to effectively combine all of those activities onto a single, centralized platform. That platform would not only incorporate internal insights (e.g., a contractor that had a safety violation at a different plant) but also external data and knowledge that

could be leveraged to make good contractor selection decisions.

Looking for the green flags

Mekins says the platform also helped Entergy consolidate all of its safety training protocols and guidelines (for contractors) in a single location for any current or potential contractor to access. “If they want to get cleared to come

in the last three years), knows that when he logs into Avetta and sees a green flag, that company meets his requirements. “I don’t have to spend the time researching anymore,” says Mekins. “This has definitely freed up time for our safety personnel and contract managers, both of whom now have time to get out into the field and oversee the actual contract work.”

For example, Mekins says that in his previous job he could spend an entire, eight-hour day pulling all of the data together for a new contractor. Today, the same process takes about five minutes.

“I go into Avetta, pull up a contractor, and instantly see what that company’s status is,” says Mekins, who sees true value in taking a proactive approach to supplier risk management. “From what we’ve found, safety and quality go hand in hand in this business. Having a centralized supplier risk platform definitely helps to reduce surprises, and is much more reliable than going by word-of-mouth or individual research.”

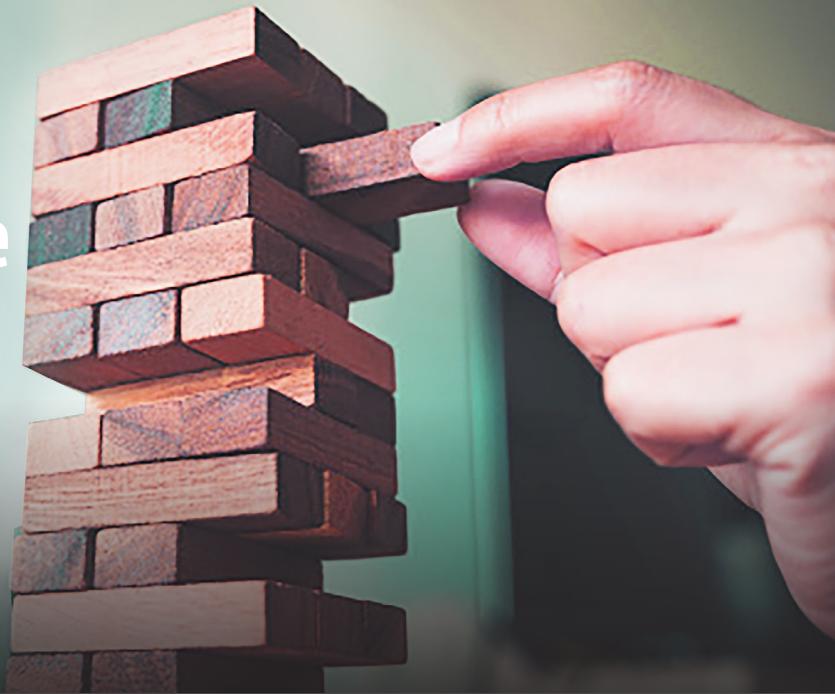
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work onsite, they can log into Avetta and get the safety training that they need to be able to start work,” says Mekins. “That way, they come in ready to work with us on day one—rather than having to hunt down proof that their training was completed (and that it was even the right training in the first place).”

Mekins, who focuses mainly on contractors whose Total Recordable Incident Rate (TRIR) is less than one (meaning, it has had zero fatalities

MAKING THE CASE: Making the case for proactive supplier risk management



When companies are proactive about supplier risk management, all stakeholders win.

BENEFITS FOR VPS OF SUPPLY CHAIN:

Responsible for managing all critical aspects of their companies' supply chain processes, VPs of supply chain are both the first and last line of defense when it comes to motivating a functional group of individuals to achieve company goals in a timely manner. They must have the right people in the right positions, run their operations in a cost-efficient manner, and be able to identify, prioritize, and mitigate potential supply chain risks.

Without a streamlined, cloud-based supplier risk management platform, mitigating those risks can be extremely challenging for the VP of supply chain. "Our platform allows them to rationalize their supply chains," says Gabe Flores, director of product marketing at Avetta.

For example, a utility's supply chain relies heavily on having qualified, reliable electricians who can perform

their work in a timely and efficient manner. Being able to quickly identify and rationalize the use of one or two electricians can mean the difference between a profitable project and one that takes too much time and effort to complete.

Using the features and functionalities of a robust supplier risk management platform, VPs of supply chain can more effectively source suppliers that are performing better, have good reviews, and that have done well in the past—all of which come together to help streamline the supply chain and make it more efficient overall.

"This, in turn, reduces your company's bottom line," says Flores, "while ensuring that you're only working with safe suppliers who are doing their jobs in a way that doesn't inflict harm on the people that they're working around."

BENEFITS VPS OF PROCUREMENT:

Charged with selecting the right suppliers or contractors for the job, VPs of procurement walk a tightrope between staying within budget and finding the best possible sources of supply.

Being able to pinpoint new suppliers that are “green flagged” and ready to work serves up a huge benefit for procurement professionals who don’t have to spend hours of their day researching and/or going back and forth with new suppliers to get the information that they need.

“Buyers can spend less time trying to find suppliers and more time picking the vendors that they actually want to work with,” says Nate Carr, Avetta’s senior director of sales operations. “In the past, a lot of these relationships were based on a handshake or during an afternoon golf game, but those days are long gone,” says Nate Carr, “at the end of the day, that approach really doesn’t get you to the insights into how that supplier is performing.”

Using Avetta’s performance reviews, procurement professionals can readily detect whether a supplier is performing up to standards or consistently delivering disappointing results. Armed with that intelligence, the buyer can shift gears quickly and find a different source of supply—all without any manual research or data-gathering.

This supplier risk management platform is also extremely beneficial for risk management professionals, who wind up spending less time evaluating risk (i.e., from an insurance, health, or safety perspective) and more time working with suppliers that actually meet their criteria.

The Avetta platform, for example, assesses each supplier from the quality, health, safety and sustainability perspectives (among others), to ensure that those companies have all of the right policies, procedures, and training in place to pass muster as a new supplier—something that could take hours or even days to do manually.

BENEFITS FOR CHIEF FINANCIAL OFFICERS (CFOS):

As the C-suite becomes increasingly interested in supplier risk management, the need for a platform that provides high levels of visibility across the supply chain has grown exponentially. The typical CFO, for example, immediately relates high rates of injury to rising insurance rates—a reality that finds companies charging more money back to their clients (to compensate for and pay for those insurance hikes).

And if suppliers and contractors don’t have their own insurance coverages in place, CFOs know that it puts their own companies at a liability to incur the costs of the incidents that happen (or the issues that come up). At the other end of the scale, when suppliers operate both safely and sustainably, CFOs start to see lower costs of doing business.

Finding those suppliers isn’t easy with manual processes, but the process becomes more straightforward and reliable when a supplier risk management platform is used. “It comes down to having clear visibility into suppliers,” says Carr, “and then being able to determine which are performing in a way that won’t put your organization at risk.”



The cost of *not* knowing

WHAT GETS MEASURED GETS IMPROVED, and supply chains are no different. The challenge lies in locating the correct data within the complexity of a global supply chain and then using those insights to make good supplier selection decisions. Nearly impossible to manage without technology, this process can be greatly streamlined using a robust, centralized supplier risk management platform.

No longer a luxury, good supplier risk management is a must-have for companies that want to continue operating profitably and efficiently in today's complex, global supply chain environment. "We're seeing a lot more companies leaning into it, and taking the early steps to onboarding specific risk elements with almost a 'triage' mentality," says David Carter, Avetta's director of digital marketing. "From there, companies are trying to determine the ROI so that they can justify requesting bigger

budgets to do even more risk management.”

Expect that momentum to continue over the next few years,

and their suppliers, in an effort to tighten those alliances and generate even more business. The more suppliers understand

some of their existing suppliers weren't complying with their contracts and/or master service agreements (MSAs).

“There's a perception out there that just because someone signs an MSA they're going to comply with your company's requirements, but that's not always the case,” Carr warns. “Ultimately when you start digging in, you find that a lot of these suppliers can't even meet your requirements. But putting everyone on a level playing field in our platform, you can avoid the 'cost of not knowing' challenge, see all of the data from a high level, and then dig down deeper

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during which time the best risk management programs will be those that have full support from senior leadership, the right budget allocations, and cross-business unit coordination. In the absence of this three-pronged approach, companies will continue to stumble around and hope beyond hope that they don't encounter a major supply chain or supplier disruption.

“As we go forward, more pressure is going to be placed on the risk management department to demonstrate the operational value of risk management,” says Gabe Flores, director of product marketing at Avetta. “We'll also see a bigger push for transparency and collaboration between companies

the risks that their customers want to assess, and the value of the data itself, the stronger those relationships will become.”

Finally, Nate Carr, Avetta's senior director of sales operations, reminds companies to keep the “cost of not knowing” in mind when developing supplier risk management strategies. For example, he says roughly 90-95% of Avetta's current customers have gone live on the platform, only to find out that

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