

# Supplier risk management

*The horse meat substitution scandal is just one example of what can go wrong when companies fail to properly manage supplier risk.*

Today, supply chains typically include multiple partners, with services and sourcing managed across several organisations and in jurisdictions across the world.

Corporates are increasing their use of third-party suppliers in the execution of key strategic imperatives. In many cases, these sourcing and offshoring activities are becoming more extensive and sophisticated in order to capture the next level of service delivery, processing efficiency and cost savings.

Yet, unless your supplier risk management framework has also evolved, you could face unexpected risks and not capitalise on the potential benefits.

## Complex arrangements realise new risks

The extent and complexity of recent sourcing and outsourcing arrangements has increased the likelihood of supplier risks. Some of these risks may include:

**Reputational risk.** The risk to your organisation's reputation due to a service or supply interruption, a supplier safety or quality failure, or a supplier's business practices – for example, an overseas supplier with substandard employment arrangements.

**Resilience risk.** The risk that a supplier failure results in an interruption to customer service – sometimes immediately. For example, an IT failure that prevents customers from placing orders or interacting with your business online.

**Information security and privacy.** The risk that sensitive data, including customer data, is compromised by a cyber-security breach or failure in a supplier company.

**Regulatory risk.** The risk of non-compliance with the regulatory requirements or the commercial undertakings associated with sourcing, outsourcing or offshoring arrangements in the jurisdictions you operate.

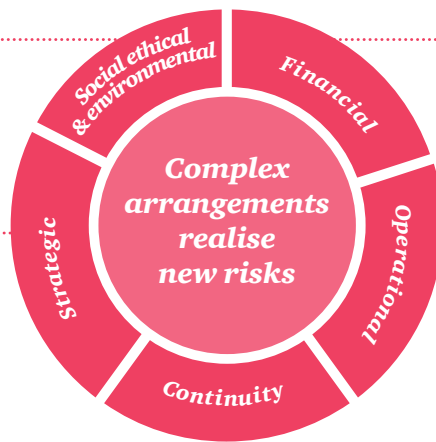
**Commercial risk.** The risk of financial loss or cost overruns from poorly managed sourcing arrangements or supplier failures and inaccurate billing from outsourced parties.

Regardless of the supply, sourcing or outsourcing arrangements can involve multiple supplier relationships that are not visible to the end-client.

## Possible supply chain risks

- Child labour
- Ethical practices
- Health and safety
- Resource consumption
- Waste

- Reputation/brand
- Compliance
- Macro economic
- Geopolitical
- Investment
- Legal/regulatory
- IP/food fraud
- Change programs
- Market changes



- Exchange rates (volatility)
- Raw material prices
- Energy prices
- Penalties
- Accuracy of billing
- Commercial
- Competition
- Labour costs

- Food safety
- Demand planning
- Quality standards
- Logistics
- Contracts
- Delivery performance and lead times
- Controls
- Security

- Supplier financial failure
- Food security
- Natural hazards
- Terrorism/food defence
- Poor management
- Key dependencies on personnel/suppliers

### **The best practice response**

You need an overall framework that enables you to manage supplier risk throughout the sourcing lifecycle.

A supplier risk management framework not only offers increased levels of control; it can also help your organisation maximise value by offering:

- A more reliable and consistent process for managing supplier risk
- Competitive differentiation through a transparent purchasing policy that supports your corporate social responsibility guidelines
- Increased operational efficiency and reduced costs through centralised contract management
- An enhanced ability to outsource non-core activities and partner with strategic suppliers on key activities
- A reduced need to replace failed suppliers.

The objective is to encourage cost effective sourcing, while ensuring the risks and accountability for end-to-end sourcing and service delivery are clearly defined, managed, monitored and understood by both your organisation and your supplier.

### **Are you managing supplier risk effectively? Some points to consider**

- Do you have clear visibility of all stages and suppliers in your supply chain?
- Does management routinely require suppliers to provide details of their own sourcing/outsourcing and offshoring arrangements?
- Do you regularly monitor the operational, ethical and financial risk and performance of your suppliers?
- How are you assured that your supply chain complies with the relevant regulatory and legal requirements?
- Does management take a risk-based approach to assessing and managing supply chain risk?
- How are you assured by management that you are operating within your supplier/offshoring/outsourcing risk appetite?
- Are you confident you can respond to any supply chain disruption without unacceptable loss?
- Are you confident that you are not being defrauded by employees and/or suppliers?
- Do you receive robust assurance that all key risks are managed in your supply chain?

***It's not just about playing defence — it's also about playing offense — finding competitive advantage by shaping a supply chain resilience strategy focused on disruption avoidance.***

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