

Understanding and Choosing Supply Risk Solutions: Software, Content and Analytics

Sherry R. Gordon, President, Value Chain Group
sgordon@valuchaingroup.com, 978-369-6985

Jason Busch, Managing Director, Azul Partners
jbusch@azulpartners.com, 773-525-7406

95th ISM Annual International Supply Management Conference, April 2010

Abstract: Supply risk management has catapulted into the headlines in recent years, but only a minority of companies has invested in a combination of software, content and analytics to improve their chances of identifying risks and taking action before disruptions or other negative consequences occur. This session will segment the supply risk solutions market, providing attendees with a detailed overview of the different types of software platforms, content providers and analytical tools that are available in the market to reduce supply risk. Because our research suggests that companies at different stages of supply risk maturity require different types of capabilities, we will also present a technology-oriented supply risk capability maturity model to help organizations better assess their current and future skill levels as well as how third-party solutions can map to their requirements. Last, our session will provide vendor shortlists in each area as well as a segmentation landscape to help companies better understand how supply risk providers can provide enabling tools and content in different areas. We are focusing specifically on purchasing and supplier-related risk solutions rather than supply chain risk solutions that address inventory and logistics risks.

Types of Supply Risk Management Solutions

Supply risk management software solutions today generally fall into four categories:

1. Spend visibility solutions
2. Supplier information management toolsets
3. Supplier performance management software
4. Standalone risk management solutions

While some companies ultimately opt – either knowingly or unknowingly – to invest in solutions from multiple areas as part of a supply risk management portfolio strategy, many opt to limit their initial foray into supply risk software to a single solution. There are pros and cons to this approach.

Spend Visibility Solutions

Spend visibility solutions provide supply risk intelligence through the data enrichment process. While many companies use their spend analysis systems for supply risk insights, there are limitations. Supply risk intelligence often comes as a batch-based data enrichment afterthought, making it challenging for procurement organizations to access supply risk intelligence on a real-time basis in the context of their own operational data. Some of the vendors that provide spend visibility solutions with risk data enrichment in this market include Ariba, BravoSolution, Emptoris, Oracle and SAP.

Supplier Information Management (SIM) Toolsets

More promising are supplier management or supplier information management (SIM) approaches to supply risk that encompass the broader lifecycle of the entire supplier relationship. SIM solutions enable organizations to begin to track risk factors from earlier in the supplier management process, starting with initial supplier evaluation and engagement. This might include creating and implementing an automated process to both initially and then periodically confirm supplier insurance or quality certifications. More advanced SIM tools also include limited supplier performance management capabilities to track supplier quality and related metrics. These are essential contributors to managing an overall risk profile. Content from third-party financial supply risk enrichment providers (e.g., D&B, Equifax, Bureau Van Dijk, etc.) are beginning to show up more frequently in SIM solutions as well, blurring the line with some of the composite views that spend visibility solutions offer. In contrast to these broader SIM offerings that include more extensive risk data, however, are more targeted approaches that often focus on a single-subset of vendor risk management, such as the onboarding and credentialing of suppliers.

Supplier Performance Management (SPM) Solutions

Perhaps the least adopted solutions in the supply risk area are supplier performance management toolsets that allow users to track qualitative insights and feedback (from both internal stakeholders and suppliers) as well as systems data (e.g., PPM, on-time performance, escapes, SLA adherence, etc.) While organizations are increasingly using performance management tools to drive supplier development activities, they are still rarely at the center of broader supply risk management programs. This is unfortunate because supplier performance is often the best leading indicator procurement organizations will have into potential supplier financial challenges.

Our experience and research suggests performance management information is especially useful when it comes to small and middle market suppliers. This is because once suppliers drop below a relative revenue threshold, the quality of third-party risk scores and content available on them declines in accuracy. Because of this, the only way to gain an accurate picture into this particular universe of suppliers is to consider both operational and third-party financial data in context. New solutions in this area (e.g., eVendor Check) expand the supplier performance paradigm from internally oriented to a broader universe of supplier data by surveying a supplier's other customers as well. Still, relatively few companies consider internal supplier performance data – let alone external survey results – as a key component of their supply risk monitoring strategy compared with third-party financially oriented risk data. Some of the vendors with SPM software include AECSOFT, Ariba, BravoSolution, CVM Solutions, and Emptoris.

Standalone Risk Management Solutions

The fourth category of supply risk management solutions fall into what is best described as highly-focused risk management solutions aimed at the direct and extended supply chain. These solutions focus first and foremost on tracking supply risk rather than providing broader supplier management, performance management or spending visibility capabilities. These solutions can range from the rudimentary and incomplete (e.g., application/online or Excel-macro driven versions of Altman Z Scores) to the comprehensive (e.g., broader supply risk

management platforms that leverage external supplier financial data and ratings along with internal operational information). Quite often, when procurement organizations begin to prioritize supply risk management efforts as a stand-alone initiative rather than an extension of other programs, they turn to this category of solution to solve their challenges. Vendors in this category included targeted supply risk software/content providers (e.g., D&B) as well as larger analytically oriented solutions (e.g., SAP/Business Objects, SAS, etc.)

Third-party supply risk content is often at the core of most supply risk management approaches that companies deploy. But the type and accuracy of predictive data can vary significantly. Information from D&B, Equifax and other credit-oriented content providers often tends to provide higher levels of forecast accuracy for larger, on-shore suppliers. However, the accuracy of information from providers such as these tends to decline as supplier size drops below a certain threshold and when suppliers are located offshore (although many will claim to have global coverage either through their own information-gathering operations or partnerships). In the case of global suppliers, third-party risk indicator content includes providers such as Panjiva, which aggregate global customs and trade information sources to show supplier shipment trending levels (vs. relying on actual payment/credit-derived content). As with all content sources, the validity, accuracy, breadth and risk lead-time provided by different providers can vary dramatically.

Supply Risk Maturity Model

To choose an appropriate solution, companies must consider many factors. The choice of the most appropriate solutions should take into account several characteristics: the level of maturity of the firm in addressing supply risk as a business issue; the composition, complexity, location and size of the supply base; and the level and scope of deployment of IT systems and spend management technology. Large, international companies with a complex, global supply base have far different needs and resources from smaller firms with relatively small supply bases and limited resources. Firms that have deployed the most basic of spend management solutions to date may need to drive adoption and spend under management before implementing more comprehensive solutions. The ability to address supply risk goes beyond deploying a particular solution. Some firms have orchestrated a proactive, multi-function approach and dedicated resources to supply risk, while others have relied solely on the purchasing function. And many companies behave reactively and do not have a history of planning and organizing responses to supplier problems with or without a supply risk solution in place.

Creating a Sustainable Supply Risk Program

Creating a sustainable supply risk program depends on technology as an enabler, not the solution to the problem. Successful companies use a combination of internal data and external intelligence, all readily available in one environment. While purchasing can be a focal point because it deals with the supplier relationship, successfully addressing supply risk should involve other functions in the organization beyond purchasing who have access to supply risk tools and information. And as in most initiatives, firms should begin by identifying and focusing on the most productive opportunities and expand from there.