



Managing Supply Chain Risk in Today's Environment

Are these familiar "Pain Points"?

- How do your customers measure and define value? (and, are you providing it?)
- Is your supply network designed to be both secure and resilient?
- What potential disruptions are facing your supply network?
- Are you positioned to use a disruption to your competitive advantage?
- Do your procurement capabilities align with your strategic plan?

Many business leaders in successful organizations are struggling with similar issues. CGN experts can share 'best' and 'first' practices that can be applied to your industry.

SUPPLY NETWORK DISRUPTIONS

In today's business environment, you need a supply network that has comprehensive security processes and procedures in place and is resilient enough to bounce back from any disruptions that happen. For many companies, the only thing standing between them and a disastrous supply chain disruption is luck. Luck should play no part in the equation. Supply networks are inherently vulnerable to disruption, and the failure of any one element could cause the whole network to fail.

Post 9/11, the requirements for a supply network have changed dramatically. Not only do companies need to focus on getting their supply chain network optimized, but they also have to be concerned about potential disruptions through terrorist attacks or otherwise. The responses of Nokia and Ericsson to the loss of a radio-frequency chips (RFC) supply in early 2000 serve to demonstrate the effect of non-terrorist activity based disruptions. While both competitors depended solely on Philips Electronics for RFCs and were thus equally affected by a fire in the main Philips RFC plant, their responses could not have been more different. Nokia immediately sensed the disruption and responded aggressively, dedicating 30 employees to work with Philips and other suppliers to maintain a steady RFC supply. Ericsson, on the other hand, did not sense the seriousness of the disruption and ultimately mounted only a modest effort to restore supply. The net effect was that Nokia achieved its sales plans, while Ericsson missed a critical new product introduction that amounted to an estimated \$400 million revenue loss. Ericsson ultimately exited from the business of making cellular phones.

SUPPLY NETWORK SECURITY AND RESILIENCY

This new environment calls for a supply network design that is both secure and resilient. That means a supply network that has advanced security processes and procedures in place, while at the same time being resilient enough to respond to unexpected disruptions and able to restore normal supply network operations. Certain initiatives will provide the dual benefits of supply network security and resilience, while others will contribute to only one. Ultimately, companies need to design for both security and resilience as a secure supply network does not guarantee a

resilient supply network and vice versa. In today's business environment, resilience is widely used to characterize an organization's ability to react to unexpected disruptions, such as one caused by a terrorist attack or a natural disaster, and the ability to restore normal operations. Resilience can be used as a competitive advantage if you can respond more favorably to a disruption than the competition (e.g. being ready to capitalize on opportunities to serve your competitors' customers if your competitors cannot.)

Supply chain resilience can be created through flexibility and/or redundancy. Flexibility means creating capabilities within the organization to respond which are mainly developed through investments in infrastructure and resources long before they are actually needed. Redundancy means building capacity in the network to respond to disruptions in the supply network through capital and capacity investments prior to the point of need. An important distinction between flexibility and redundancy is that the latter involves capacity that may or may not be used; it is this additional capacity that would be used to replace the capacity lost by a disruption. Flexibility, on the other hand, entails redeploying previously committed capacity.

To manage supply chain risks and opportunities, a company needs to define its strategic plan, including the vision, mission goals, objectives, and plans for developing supply chain and procurement capabilities. These plans should align with and enable the overall business strategy. All supply and procurement capabilities must be targeted within the strategic plan to achieve the desired performance levels so as to position supply chain and procurement infrastructures that can support the desired levels of cost performance and revenue enhancement. Capabilities addressed in the strategic plan should include: supply chain and procurement policies; all core supply chain and supply chain risk management processes; organizational capabilities including skills, competencies, and cross-functional teamwork; information for decision making (management, measurement, and control); and the supporting systems, tools, and data standards required to produce the information for decision making in a timely, accurate, and complete fashion. Enterprise-wide supply chain and procurement risk management can be fully integrated with and contained within the overall supply chain strategic planning process and plans, and should address risks in all aspects of supply chain and procurement capability.

SALES AND OPERATIONS PLANNING

Sales and operations planning (S&OP) is a means by which senior management can: orchestrate and execute business strategies and plans; prioritize plans and choices; evaluate and prioritize risks; set risk tolerances; and manage, monitor, and control demand and supply plan performance and variances. It is an effective means for senior management to demonstrate leadership, teamwork, and practice shared risk management while keeping a firm handle on the business. Effective demand and supply planning and execution are essential ingredients within a high-performing supply chain process. Success in demand/supply management requires a high degree of cross-functional leadership and collaboration among organization executives, managers, and professionals. It also relies on streamlined and integrated demand and new product and supply planning processes, as well as, timely, accurate, and complete flows of information. Furthermore, effective resource planning is required throughout the supply chain with a strong emphasis on information timeliness and integrity; comprehensive and integrated risk assessment; agreement by management as to acceptable risk tolerances; and continuous monitoring, control, and mitigation of those goals and risks. It is no longer acceptable to focus only on internal resources. All key sources of materials and services need to be addressed in S&OP to ensure that all critical internal and external resources and capacities are in alignment to meet the organization's demand plans

Supply interruption risks have always been a day-to-day high priority for supply chain executives and professionals. The arrival of the war on terrorism, infectious diseases, and the continued velocity in the growth of global sourcing and business process outsourcing have increased both the likelihood and impact of supply interruption events. Organizations need to ensure that their overall supply chain and procurement strategic plan defines processes and controls that ensure supply interruption risks are managed in a formal and proactive manner. In addition, executive-led sales and operations planning is an ideal executive forum for shared, cross-functional, enterprise-wide supply risk management, risk-tolerance measurement, control, and decision making discussions.

HOW CGN HELPS

CGN is a Business Performance Consulting firm that works with Fortune 500 companies to help them identify ways to achieve 'Superior Business Results'

by increasing leader visibility to cost, quality, and yield management. CGN solutions are built around key levers that can help organizations achieve and deliver both short term and long term improvements, ultimately leading to breakthrough growth.

TO LEARN MORE

If you would like to understand how you can take advantage of The CGN WaySM to overcome your businesses challenges or pursue new opportunities, please contact us at 1-888-RING-CGN or visit us at www.cgn.net.

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