

Creating More Resilient Supply Chains



Here are some steps supply chain and procurement professionals can take right now to ensure good supply chain continuity, now and in the future.

For supply chain and procurement leaders at industrial organizations, nothing about the last 24 months has been easy or “normal.” From the global pandemic to the subsequent supply chain disruptions to the ongoing labor shortage, the number of obstacles being put in the average procurement or supply chain professional’s path right now is much higher than usual.

“Resurgent economic activity has collided with supply disruptions that have seemingly come one after another,” McKinsey & Co., points out in “[Procurement, early warning systems, and the next disruption](#).” “Procurement executives know they need to respond but are unsure how. Most of them have not had a chance to anticipate the next set of problems—let alone to quantify them.”

A good starting point is to conduct a classic “supply and demand analysis” based on key questions like: How much of a product will the company need in a specific year in the future? And, how much of that product will be available to all vendors globally?

As part of this exercise, McKinsey tells companies to pay closer attention to supplier defaults, knowing that the vendor that furnishes an essential material or product—and that suddenly goes out of business—could have a significant impact on the organization that relies on it for materials, components or parts.

For both direct and indirect suppliers, consider the operational risks (i.e., understanding how they’ve set up their sourcing networks), structural risks (what outside shocks could prevent it from operating and fulfilling orders?) and financial risks (corporate liquidity, credit ratings and revenue concentration).

Other supplier-related risks to consider include (but aren’t limited to):

- **Regulatory issues.** Figure out whether your suppliers have the oversight in place to meet regulations. “This could become trickier in the future as downstream companies are increasingly held to account for activities in their upstream supply chains, including activities related to CO2 emissions,” McKinsey points out.
- **Data security.** Security breaches can leave the systems of seemingly-stable suppliers inaccessible, cause them to lose customer data or allow misinformation to be sent out in their names. “Such breaches can also interfere with delivery schedules and affect downstream customers,” McKinsey adds. “The due diligence that is required revolves around tier-two and tier-three suppliers’ cybersecurity standards and intellectual-property policies.”
- **Reputational issues.** Companies sometimes make news because of questionable activities. When this happens to a supplier, a downstream manufacturer may be forced to sever its relationship with that supplier to protect its own environmental, social and governance (ESG) reputation, according to McKinsey.

- **Organizational maturity.** By their very nature, suppliers vary in their tenure, risk management capabilities and culture. McKinsey says organizational maturity focuses on just how deftly a supplier can recover from the inevitable problems that arise in business and also handle future contingencies.

With each of these potential issues factored into the equation, procurement and supply chain leaders can prioritize their next steps across three different levels: immediate action is needed, action will be needed in the mid-term or no immediate action is needed at this time.

This isn't a Set it and Forget it Exercise

For best results, McKinsey cautions companies not to treat this as a “set it and forget it” exercise. Instead, revisit and use the methodology on a continuous basis, and be sure to share it with other stakeholders outside of the procurement organization.

“If procurement’s analysis shows that inflation is about to hit a key supply category, that should start a conversation between procurement and sales so that the sales team can pass the higher cost through to customers if necessary,” McKinsey advises. “Similarly, if an analysis shows that a sole supplier is in danger of going out of business, that should prompt a conversation with the R&D or manufacturing team about finding alternative suppliers.”