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# Supply Chain Risk Management

March 16, 2011

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## In reviewing our recent research on Global Supply Chain Risk, the following trends have emerged:

1. Supplier Failure/Bankruptcy remain the largest concerns for surveyed businesses
2. Issues such as Geopolitical Events, Contract Failures, as well as Energy and Raw Material shortages are now prominent concerns
3. It is believed that most Risks Factors will significantly increase in the next 1-2 years, and that few, if any, will decrease in that same period.

### Advice from really smart people in these matters:

*“Chains of habit are too light to be felt until they are too heavy to be broken”*  
Warren Buffett

*“The only source of knowledge is experience”*  
Albert Einstein

*“Plans are nothing; planning is everything”*  
Dwight D. Eisenhower



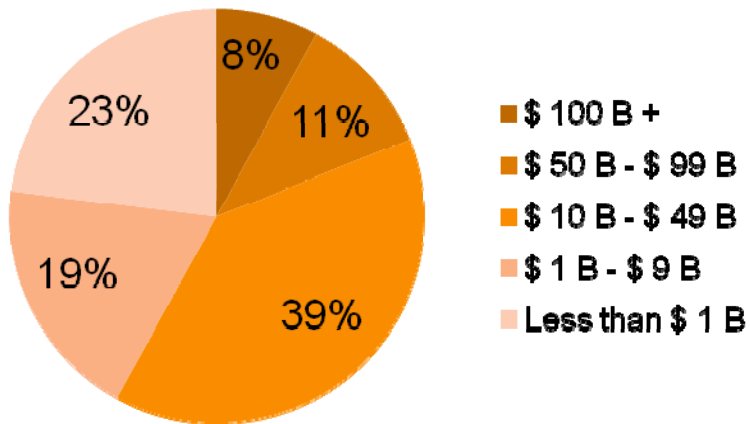
## Research Partnership with Western Michigan University

- **Scope**
  - Focus: Questionnaire on Risk and Failure Modes
  - Target: Procurement Officers & Managers, Supply Chain Executives, Plant Management
  - Scope: Multi-Industry
  - Renewable: 2009 and 2011
  
- **Data Utilization**
  - Failure Mode Identification
  - Relative Risk Levels
  - High Risk Events in the Supply Chain
  - Trends
  - Metrics and Sensors
  - Current Corrective Actions

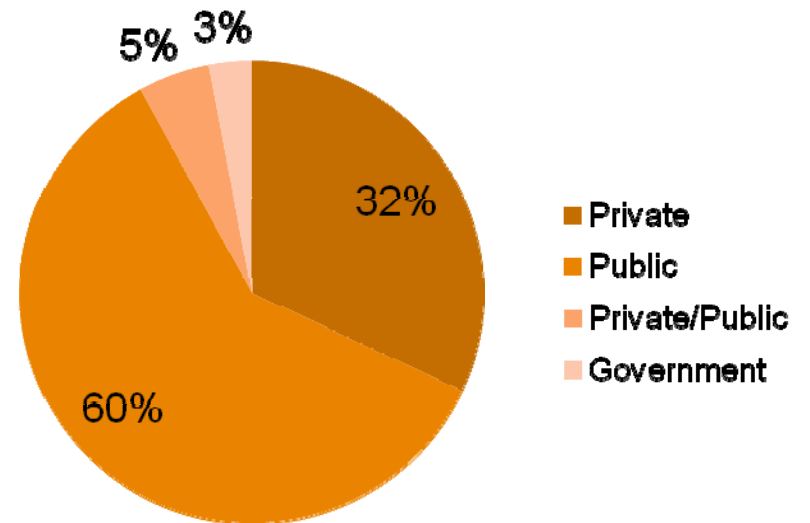


## What are your annual sales and ownership structure?

### Annual Sales

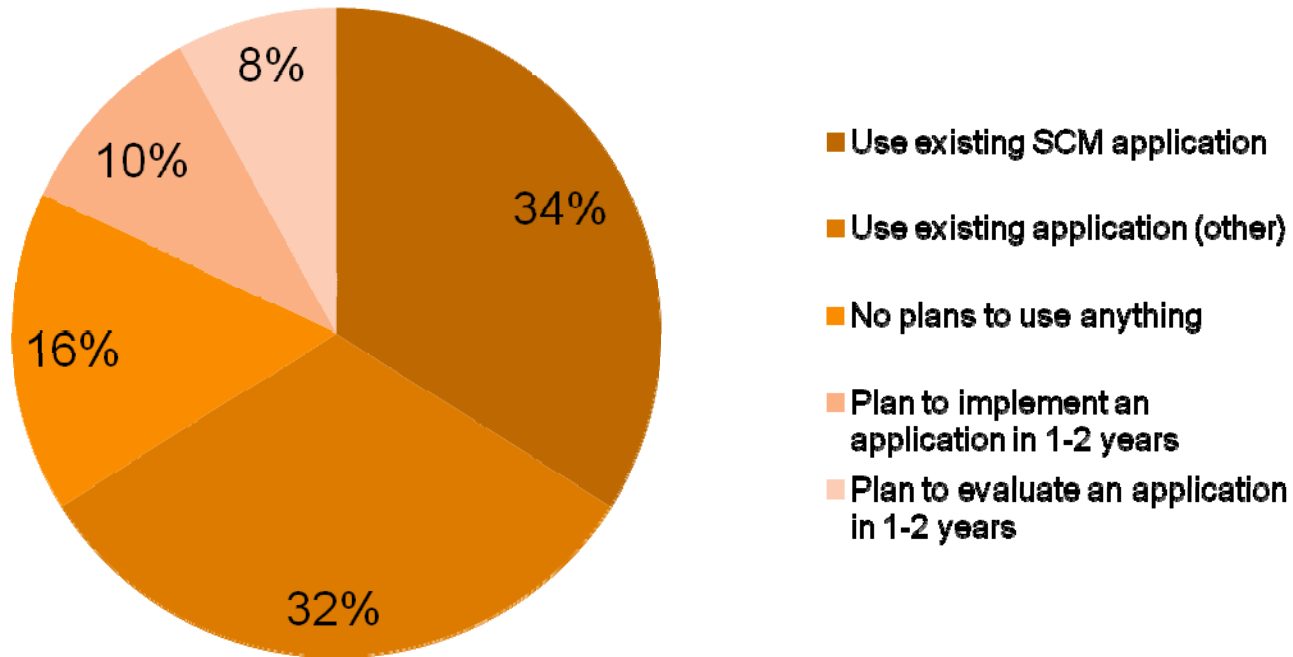


### Ownership





## Which best describes your usage of Supply Chain Risk Evaluation tools, techniques, and methods?





## To what extent are the following used in managing your supply chain and the risks within it?

### Most Extensively Used

1. Using an approved list of suppliers
2. Establishing good communication with suppliers
3. Supplier Performance Measurement System
4. Information gathering
5. Inventory management

### Least Extensively Used

1. Network design analysis programs
2. Joint technology development initiatives
3. Training programs
4. Demand signal repositories
5. Hedging strategies

**CORE TREND:** Companies have internalized and simplified much of the Risk Management activities. Extended Activities (e.g. training, joint technology initiatives, hedging, etc.) are still being conducted, but only by Benchmark companies.



## How satisfied are you with your supply chain group's performance on the following issues?

### Very satisfied

1. Logistics and delivery reliability
2. Meeting customer service levels

### Not satisfied

1. Lower commodity prices
2. Visibility within the supply chain
3. Reduced material price volatility

**CORE TREND:** One of the byproducts of downsizing is the singular focus of most supply chain organizations to meet base needs of the customer. Extended functions, e.g. supply chain visibility, material price volatility, have become secondary functions.



## Which phrases do you most agree/most disagree with in relation to managing supply chain risk?

### Strongly Agree

1. Without a systemic analysis technique to assess risk, much can go wrong in a supply chain.
2. Managing supply chain risk is an increasingly important initiative for our operations
3. Supplier reliability and continuous supply is the top risk factor for our supply chain.

### Strongly Disagree

1. We are planning to outsource all or some of our risk management functions
2. My workplace uses supply chain risk managers who work closely with corporate risk management
3. Our spending intentions for managing supply chain risks are very high

**CORE TREND:** Awareness of Geopolitical issues, dedicated budgets for managing risks, proactive management of risks, proactive evaluation of moving operations overseas are now the focus of a select few companies.



## Please rank, in order, those risks which would have the most significant impact on your supply chain

### Most significant

1. Supplier failure/reliability
2. Bankruptcy, ruin, or default of suppliers
3. Natural disasters or accidents
4. Commodity cost volatility
5. Logistics failure

### Least significant

1. Tax Issues
2. Insurance coverage
3. Banking regulations and tighter financing conditions
4. Language and educational barriers
5. Unfamiliar business and property laws

**CORE TREND:** The Top 5 Risks have not changed in 3 years; However, Geopolitical and Energy/Raw Material shortage Risks have become more significant and topical.



## Do you believe the supply chain risk will increase, stay the same, or decrease in the next 1-2 years?

### Risk will increase

1. Currency exchange, interest, and/or inflation rate
2. Commodity cost volatility
3. Banking regulations
4. Government regulations
5. Geopolitical events

### Risks will decrease

1. Information delays, scarcity, sharing, & infrastructure
2. Language or educational barriers
3. Lack of trust with partners
4. Measuring tools – metrics translation
5. Degree of control over operations/Supplier failure

**CORE TREND:** 3 years ago, Trust with Partners, Supplier Bankruptcy and Customer-related Demand changes were viewed as a growing concerns;



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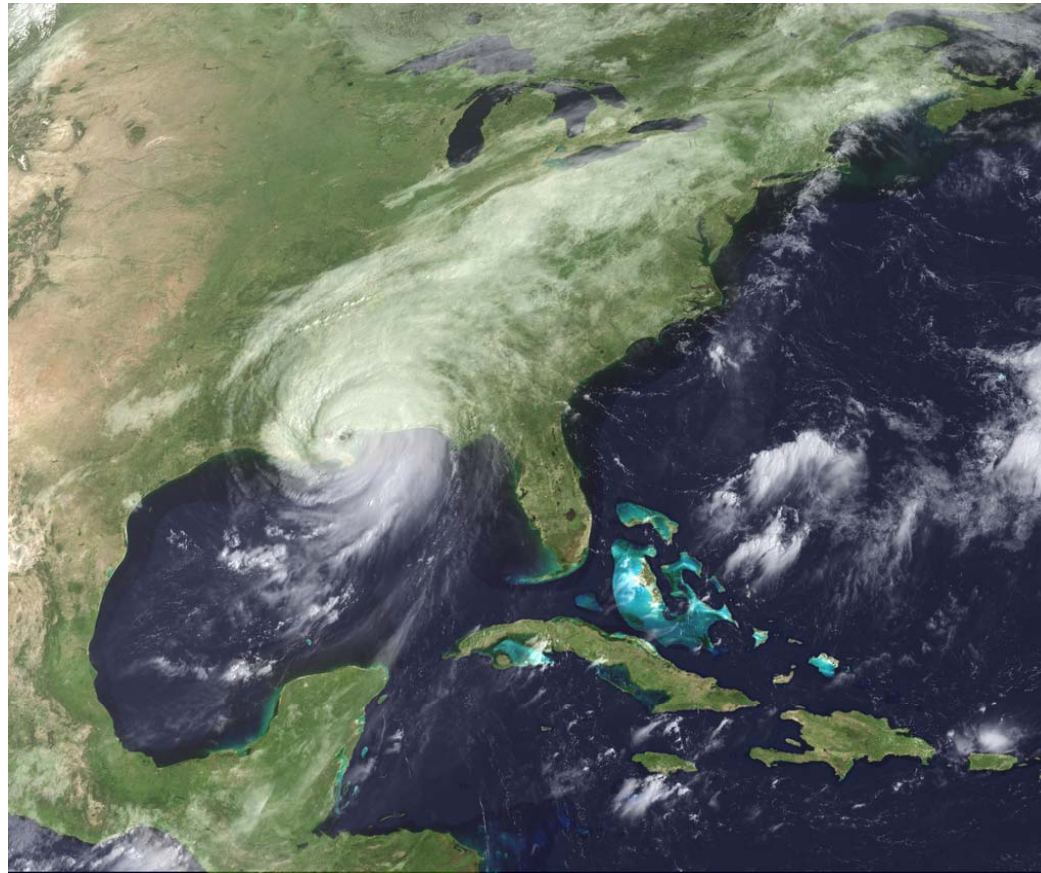
## Four Habits of Effective Supply Chain Managers



## 4 Habits of Effective Supply Chain Managers

1. Read and understand a newspaper
2. Maintain relationships with your suppliers
3. Develop talent
4. Visualize and communicate your plans

## Read and understand a newspaper



Source: NASA Goddard Photo and Video  
<http://www.flickr.com/photos/gsf/>

“What is your understanding of this picture?”



## **“Singular historical events have had significant impacts on global supply chains\*”**

Relative to Hurricane Katrina:

1. Roads, bridges, and utilities were damaged or destroyed
2. Oil platforms in the Gulf of Mexico were damaged, leading to an increase in fuel prices
3. The Port of New Orleans was closed for 3 weeks and operated below maximum capacity for months
4. High demand led to a national shortage of building supplies

People tend to react, but only to significant events.

## Maintain relationships with your suppliers



Source: Microsoft Clip Art

“What is your understanding of this picture?”



## **“Your supplier may no longer be your neighbor, your church member, or your cousin\*”**

Relative to selecting sources in far away lands:

1. Compliance is changing the customer/supplier relationship
2. Face-to-face communication is no longer en vogue.
3. The risks don't change; they just rearrange
4. Time must be spent in developing standards, common understanding, and proving processes

People do extraordinary things, but for people they know and trust!

## Develop talent

“What is your understanding of this picture?”



## **“Generation Y is not interested in working in (automotive) supply chains\*”**

In the selection and development of new college graduates:

1. Develop relationships with and recruit from local universities
2. Support internships and conduct joint, directed research
3. Assess recruits based on their ability to be developed in the company, to work hard, and to learn/adapt
4. Trade: Technology savvy and fearlessness for mentoring, patience, and soft-skills training

Our future is not certain. What is certain is that we will not be there!

## Visualize and communicate your plan

“What is your understanding of this picture?”



Source: Microsoft Clip Art



**“The greatest risk to firms is the inability to seriously consider, continue to be proactive, and create contingency plans that are updated\*”**

In the development of plans:

1. Start with a plan
2. Visualize your plan; Share your plan;
3. Manage expectations; highlight weaknesses in the plan
4. Focus your limited resources
5. Visualize what you will do in the event of a success or an emergency

Planning is a mechanism for collaboration. It is an opportunity to simulate success and failure, and to measure the behavior of ourselves and those around us.

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