

E-BOOK

Long-Haul Procurement

5 Strategies for Surmounting Extended
Supply Chain Disruption



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Introduction

Over the last two years, we have experienced firsthand just how intricately interconnected and interdependent our supply chains are. Each disruption or delay in the network has wide reverberations — adding costs, endangering fragile customer relationships, and demanding time and energy from decision makers already spread perilously thin.

According to *Entrepreneur*, 94% of Fortune 1,000 companies report that they experienced supply chain disruptions due to the COVID-19 pandemic.¹ These costs have to be absorbed by the company or passed along to customers — and they are not inconsequential.

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1. Bill Hobbs, "Overcoming the COVID-19 Supply Chain Strain," *Entrepreneur*, 6 May 2020. Retrieved 29 December 2021 from <https://www.entrepreneur.com/article/349007>
 2. "Global Supply Chain Disruptions Cost Companies \$184 Million Annually," *Security*, 25 June 2021. Retrieved 29 December 2021 from <https://www.securitymagazine.com/articles/95489-global-supply-chain-disruptions-cost-companies-184-million-annually>
 3. "Supply Chain Disruption," Accenture, 22 June 2020. Retrieved 29 December 2021 from <https://www.accenture.com/us-en/insights/consulting/coronavirus-supply-chain-disruption>
 4. Ibid.



When we look at the wide-scale impact of risk on modern, global operations, we see figures such as:

- An average \$184 million cost to large corporations from global supply chain shocks alone²
- 75% of companies forced to handle negative or strongly negative COVID-19 impacts on their businesses³
- 55% of companies planning to downgrade their growth outlooks (if they have not already done so)⁴



Anticipation of a “return to normal” has transitioned to hope for a “new normal” or “next normal” — neither of which seems to be on the horizon at this writing. Wise leaders and decision makers must accept that this time of extended disruption is not soon going to pass. Hope will not be a suitable strategy for handling today’s long-haul economic uncertainty.

To position themselves for success despite pervasive turbulence, companies will need to invest in sustainable structural change. This will have implications for their talent, technology, and operational expectations, and it will be no less necessary in circumstances where the complexity seems overwhelming.

Labor, material shortages, and geopolitical dynamics such as trade wars constantly shift the sands beneath our feet, while the digital transformation we have already invested in seems to be accelerating the pace of business just as much as it is helping us deal with that higher speed.

In this eBook, we will identify five core strategies procurement leaders and their teams need to survive the disruptions in our multi-faceted new reality. Although these strategies have their roots in proven procurement best practices, they will elevate procurement’s ability to manage risk by broadening its point of view on the options for handling each potential challenge.



1

CORE STRATEGY #1

Pursue Illumination
of Supplier Tiers and
Industry Landscapes.

Most procurement teams start their risk management efforts by addressing the first tier of the supply chain. The most obvious risks are driven by the providers a company is contracting with and how those suppliers perform. But additional risks are embedded beyond that first layer. After all, contracts represent a company's reliance on its suppliers' supply chains as much as they rely on the contracted entities themselves.

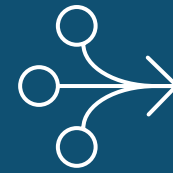
Raw material-related risks may emerge or exhibit themselves through a relationship with a prime supplier even though that supplier doesn't have direct control over the material — except as it passes through their supply chain. This means that the push for visibility will never be complete, even as a company's view expands over time.

Through a process that Dun & Bradstreet describes as "Supply Chain Illumination," procurement can pursue visibility multiple tiers into the supply chain to apply risk metrics, identify risk concentrations, and spotlight risk gaps — all in the effort to monitor and mitigate future disruptions.



SUPPLY CHAIN ILLUMINATION:

The practice of increasing visibility multiple tiers deep into the supply chain to discover and monitor risks beyond a primary (or tier 1) supplier.



Sources and factors contributing to supply chain disruption

- Material/component shortages
- Global shipping bottlenecks
- Driver shortages and fuel cost increases
- Workforce participation issues
- Consumer-driven bullwhip effect (think toilet paper)
- Lack of visibility and transparency
- Increased complexity/constraints associated with regulatory compliance

The more information procurement has about the sources of specific risks, the more targeted the chosen mitigation strategies can be. For instance, the shortage of semiconductor chips has been in the news frequently. It's affecting the manufacture and delivery of everything from cars to consumer appliances and electronics. We can paint the risk in those supply chains with a broad brush, or we can become more nuanced — improving our ability to respond.

Procurement may push deeper by asking questions such as:

- Are the shortages and bottlenecks affecting all finished semiconductor chips, or just the wafers used by some?
- Is there an issue with the etching ink that is only made by a few players?
- What impact is West Coast port congestion having on timely delivery of the chips coming over on container ships from Asia?

The answers to these questions are essential for companies that want to proactively target their greatest risks.

The same is true when procurement wants to improve its understanding of a given industry. In this case, “situational awareness” is tied to the competitive landscape. A company will already know who its incumbent suppliers are (if there are any) and may also have a shortlist of requested prospects provided by the business.

But how do these groups of suppliers compare to the other suppliers in that industry? Are there suppliers that would typically be thought of as players in a different industry that could nonetheless solve the business requirement at hand? These challenges are not just felt in the B2B space; they affect consumer-facing companies as well.

Nuanced situational awareness makes it possible for procurement to target risks, identify and pre-qualify new sources of supply, and improve the overall resilience of the supply chain. But before that nuance is accessible, companies need to know who they are doing business with and how effective those partners are. After all, as we will consider next, today's supply chain is less of a “chain” and more of a delicately networked ecosystem.

Case in Point

SITUATION: A multinational food processing company needed more visibility into who its 100K+ global suppliers were and how they were performing. Without this information, supply chain disruptions threatened both its revenue and brand reputation.

OUTCOME: The company was able to access supplier intelligence data that improved its visibility, control, and process efficiency, and delivered \$1.6M in annual savings.



2

CORE STRATEGY #2

Understand the Fundamental Structure of the Supply Network.



Although procurement typically starts the risk assessment journey by investigating a specific supplier or product, there comes a point when it is essential to consider the network dynamics around that entity and its relationship to the rest of the supply ecosystem.

Some risks result from the structural dynamics of the network. For instance, it's possible to have a sole-sourced category with elevated risk, or have a choke point at the third tier of the supply chain in a category where the business believes it has diversified its sources of supply specifically to avoid disruption.

Companies also need to be prepared to address geographically-driven risks such as politics, labor disputes, or natural disasters that could be exacerbated by certain events. Even environmental, social, and governance initiatives (ESG) are not immune from risk. The instability associated with environmental disasters, lack of workforce/Board inclusion, or

how supplier firms are governed must be faced. Companies must understand and then quantify the impact of those risks, regardless of what tier of the supply chain they occur in.

Given the complexity of this landscape, procurement needs to step back and understand the bigger picture — consisting of multiple layers of interrelated suppliers — before it can work with the business as a whole and with individual suppliers to mitigate individual risks. Achieving this understanding isn't easy; it requires a healthy respect for the value of data.

Supply network data is often fragmented, unreliable, and dispersed across multiple locations and business entities. To provide a truly holistic, multidimensional view of the network structure, supplier data needs to be both comprehensive and current, providing insights into the corporate identities, linkages, transactions, and commercial relationships that the structure comprises. Data of this caliber generally needs to be obtained from a third-party data source.

A large tree stands on a flat, white surface that transitions into a vibrant green field. The left side of the tree is bare, with dark, intricate branches reaching out against a cloudy sky. The right side of the tree is lush with bright green leaves. This visual metaphor represents the concept of change and evolution.

3

CORE STRATEGY #3

Reconsider Change
as a Continuous
Evolution.



Each set of clearly visualized and articulated supply risks can be matched with a range of mitigation strategies. To achieve this, procurement requires data-driven supply chain transparency as well as an elevated approach to meeting the business's needs.

But there is another factor in this equation we have not yet addressed, and that is the impact of time — both its passage and how decision makers' perception of it alters their choices.

Many companies are still reeling from the systemic disruptions of the last two years. It is natural, and common, to divide time into "before," "during," and "future." Some of this categorization stems from the abruptness of the switch from "before" to "during," at least in the case of the COVID-19 pandemic. As a result, we sit and wait for equally marked signs that we have returned to normalcy.

But while we're waiting, our supply chains are not; they are continually evolving from one phase to another. Change occurs, sometimes gradually, sometimes abruptly; current conditions are usually linked to both the past and the present.

When making supply chain decisions in this environment, companies must be just as changeable as the circumstances around them. Unexpected events cannot be seen as disasters, but rather as unavoidable shifts that can only be partially prepared for since they cannot be predicted.

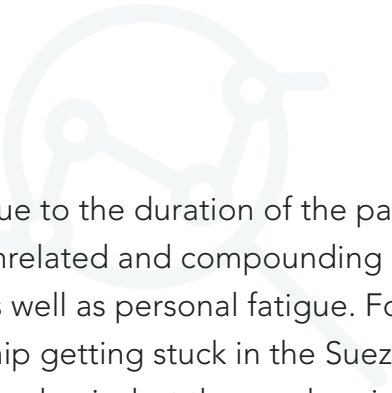
No one can thrive in the midst of disruption by waiting for it to be over. Companies that take a sophisticated approach to risk will instead arm themselves with information, constantly reassess their plans, and make short- and mid-term decisions as information and circumstances justify.

4

CORE STRATEGY #4

Plan for Compounded Disruption and Accelerated Recovery.





Due to the duration of the pandemic, the world has experienced unrelated and compounding disruptions, leading to operational as well as personal fatigue. For instance, the Ever Given container ship getting stuck in the Suez Canal was not caused by the pandemic; but the overlapping impact on the supply chain from both events meant that each was felt more acutely.

This issue is not unique to our time. There has always been the potential for — and incidents of — concurrent disruptions that had to be managed in parallel. Hurricanes overlap with material shortages, and labor strikes take place when industries are already stretched by regulation or competitive new market entrants.

Companies that drain their capacity for resilience are not only less likely to survive a second, parallel risk; they will take longer to recover from the impact of the first. Preparation for the future is key, even when the effects of disruption are still being felt.

The foundation for readiness is best found in comprehensive supply chain data that is cleansed, contextualized, and accessible enough to be actionable. When companies improve decision-makers' access to data, they also increase their organization's resilience and ability to pivot as required.

For instance, having a standardized supplier master may seem like a “technical” objective, but when confronted with the risk of disruption, it may be the most strategic resource at a company's disposal.

Case in Point

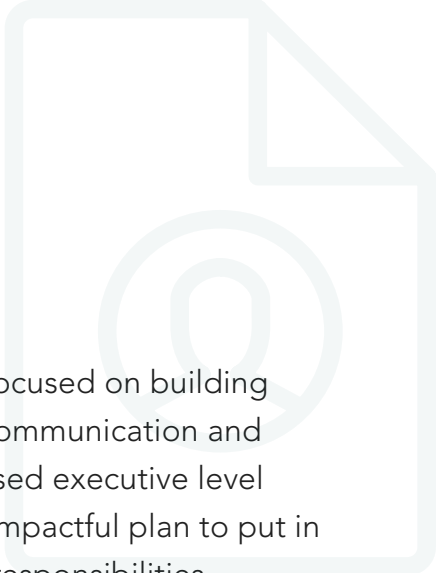
SITUATION: The Board of a UK-based clothing brand realized that its procurement team was only performing minimal, inadequate supplier due diligence.

OUTCOME: The company implemented a new data-driven solution and new processes company-wide, addressing all current and new suppliers.

Case in Point

SITUATION: One of the world's largest pharmaceutical companies was reliant upon manual processes for supplier risk assessments, and so was only evaluating the most critical partners.

OUTCOME: With added intelligence and automated supply chain risk management, the pharma company subsequently was able to triple the scope of its efforts.



Systematized disruption responses focused on building resilience may include accelerated communication and reporting cadences as well as increased executive level involvement. But perhaps the most impactful plan to put in place is around clear assignment of responsibilities.

In uncertain working conditions, companies may reassign the tasks associated with a response leader's "day job" so that there is one owner for a given response and recovery effort. This opens the door to that person being able to lead a "rapid response" team, investing in resilience/agility and ongoing operational stability at the same time without hindering the performance of either.

While there may be an "all hands on deck" mentality in the immediate aftermath of a disruption, most team members must return to their original posts as soon as possible, both to ensure operational stability and to regroup should another unplanned event occur.

5

CORE STRATEGY #5

Stop Categorizing
All Risk as Negative!





To this point, we have predominantly addressed risk and disruption as negative events, but this is not always the case. Even a spike in customer demand — which would usually be seen as a very positive development — can be disruptive to a company that is unprepared to flex and handle it well.

Risk is one way of describing uncertainty, and in business, that's a constant. Forecasts and projections typically come with a confidence level and tolerance range; anything outside of that range can be disruptive.

Rather than trying to judge unpredictability and divide unknowns into categories of good and bad, procurement should focus on being informed enough to objectively describe the cost of any supply chain-driven event.

Events may come with costs in terms of revenue, relationships with customers, or brand identity. All of these are dependent upon how the company approaches risk and how procurement discusses risk internally. Using data to reduce the size of the response “haystack” makes it possible for efforts to be more focused and decisions to be made with greater speed. An experienced leadership team will be able to brainstorm scores of potential strategies, so having the information available to evaluate them and select the best option quickly is key.

Unexpected business conditions can be risks or opportunities. The best prepared teams will know how to tell the difference, usually by putting frameworks in place to operationalize the requirement without additional delays or overhead.

Strategies for procurement and supply chain managers to know about and use

- Monitoring specific materials/industries/supply partners
- Re-optimizing global supply chain strategy — no longer waiting for “it” to be over
- Partnering with specialized third parties (such as 3PLs) who can apply their expertise to high-likelihood disruptions
- Leveraging third-party service providers where in-house talent/skills may be scarce
- Attempting to quantify specific sources of risk in terms of their cost to the business as a way of evaluating the suitability of possible solutions
- Improving relationships with key suppliers, sharing intelligence/insights/analysis as appropriate



Conclusion

When procurement talks about identifying risks, it can start with data but should also validate potential strategies with third-party experts — including data provided by supply partners — to ensure that multiple perspectives are considered and addressed.

Even the most straightforward supplier data, such as contact information, must be actively managed if it is to be accurate when it is needed. On average, 5% of telephone numbers and 4% of mailing addresses change each year. The time to discover that this data is unusable is not when a disruption has occurred.

If procurement teams want to succeed through long-haul supply chain disruption, they will need multiple strategies and resources to draw from. Being ready for sustained uncertainty does not require a crystal ball (fortunately), nor do companies need to be prepared to plan beyond their confidence horizon.

But they do need to ensure that procurement operations rigorously adhere to a fundamental four-step framework:

- 1 **Assessing** suppliers according to well-defined objectives where cost is only one of multiple factors
- 2 **Onboarding** suppliers with a risk management workflow that includes screening and review of financials, corporate linkages and ultimate beneficial ownership (UBO)
- 3 **Monitoring** suppliers and the multi-tier supply network to proactively detect sources of disruption
- 4 **Managing** risk through ongoing, active partnership with suppliers

Having multiple response options and being willing to change direction mid-course as more information becomes available will break the long haul into smaller, more responsive segments that are also more manageable. As we have seen, the next disruptive event — good or bad — is always imminent for someone.

The question is, will it be you — and will you be ready to respond?



Dun & Bradstreet empowers procurement and supply management teams with better tools and insights to help minimize third-party risk, helping their businesses grow and thrive in fast-changing, risk-prone environments. Our market-leading data and intelligent, automated analytics solutions help customers identify appropriate suppliers, achieve broad visibility into supplier networks, and boost supply chain resilience while improving cost savings and bottom-line results.

Visit our website to learn more.

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