

# Supply Chain Risks: Different Types and How To Mitigate Them



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In a perfect world, our supply chains would run smoothly all day, every day,

without incident.

But as we all know, and the coronavirus pandemic has shown us, even the best-laid plans can go awry.

The best way to minimize disruption is to identify the various supplier risks and create a plan of action for what to do if the risk becomes a reality.

Here we'll discuss various potential supply chain disruptions and what you can do to mitigate the risks to keep your business up and running throughout whatever circumstances are thrown your way.

## • **Financial Risks**

Risks in this category range from an unexpected change in the exchange rate to supplier bankruptcy. They can include funding limitations, missed or late milestones, and cost overruns and may be linked to changes in the project scope.

This can also include economic instability. Hanjin Shipping, the 7th largest shipping company in South Korea, went bankrupt and caused a 3% capacity reduction in the global supply chain. While that doesn't sound like much, nearly \$14 billion in cargo couldn't dock.

## **What to Do About It**

Establish an emergency fund to account for changes in exchange rates and cost overruns. Always have another supplier for any mission-critical raw materials in case there are issues of any kind with your primary suppliers.

When working with countries where economic uncertainty is an issue, work on increasing employment in the area with apprenticeships and reaching out to college students about careers in the supply chain.

## • **Legal Risks**

These often come from disputes regarding interpretations of contractual

obligations, or not meeting requirements in the terms and conditions. Other legal risks include intellectual property misuse, especially concerning patents, civil lawsuits, and law violations.

## **What to Do About It**

Consult with your legal team if there's any doubt about an action the company or a representative may take.

## **• Environmental Risks**

This one is especially important for businesses focused on environmental, social, and governance (ESG) issues. The procurement team must always evaluate environmental risks created by contractors and suppliers.

Environmental risks cover any negative impact on the air, soil, or water due to emissions, discharge, and other kinds of waste.

## **What to Do About it**

Evaluate suppliers based on their practices - paying special attention to any green initiatives they claim to have. Work with suppliers who are just as committed to protecting the environment as you are.

Source what you can from reclamation centers and use recycling whenever possible.

## **• Natural Disasters**

Everything from hurricanes to tornados and tsunamis can cause issues for ocean freight. As global warming and climate change cause more frequent and severe issues with tropical storms, it's more crucial to develop alternate routes.

## **What to Do About It**

Re-evaluate using ocean routes and determine the carriers that can increase shipping in anticipation of storms, so you can be flexible enough

to scale back operations in uncertain times.

## • **Catastrophes**

These include human-made issues, as well as natural disasters that aren't a result of the weather, such as famine and earthquakes.

### **What to Do About It**

Develop a detailed and solid plan to ensure continuity after a catastrophe. This could include devoting more resources to maintaining operations, using cloud-based tools, automation, and more.

## • **Scope of Schedule Risks**

These are most commonly the result of a poorly defined original scope of work, but they can negatively affect project timelines and lead to cost overruns.

Schedule changes may also result from natural disasters, including fire, flood, and hurricane. They may also arise because of noncompliance issues on behalf of the supplier.

Scope risk may also happen because of changes when the original statement of work (SOW) is no longer workable.

### **What to Do About It**

Start with a clearly defined scope of work that all parties agree on.

Meet with involved parties to ensure there is no ambiguity, and have a contingency fund available in case budget overages occur due to something out of your control.

## • **Sociopolitical Risks**

When politics and government change drastically, it has the potential to

wreak havoc on your current supply chain.

Take, for instance, Brexit, and its adverse effect on trade. Ultimately, this weakened the British pound's value and created market volatility.

## **What to Do About It**

Even in situations where governments don't require a strict approach, maintain a high level of compliance across all operations.

Doing so reduces the risk of compliance violations and protects you against the enforcement of new regulations.

Shipping companies should opt to partner with carriers operating outside of the affected governments to handle trades.

## **• Project Organization Risk**

Also considered a planning risk, this occurs because you don't have the right staff or tools in the right place at the correct time.

## **What to Do About It**

Take extra time during the project planning phase to ensure you have a complete list of all the resources you'll need to be successful with the project.

Consider staffing and equipment needs and what it will take to get what you need where you need it when you need it.

## **• Human Behavior Risk**

This is one of the most difficult areas to assess because people can be unpredictable.

Sometimes, a project may be pushed back because of injury, illness, or a key staff member deciding to leave the company. Other times, it could be because of bad decisions or poor judgment.

Beyond this, an assessment should identify internal risks (related to company operations) or external ones (related to conditions outside of the organization that are out of your control).

External risks could be regulatory, market fluctuations, changes in the political environment, etc.

## **What to Do About It**

There's not much you can do about the external factors, except have a plan to adapt to any changes as they arise.

The best thing you can do is focus on a plan to tackle the internal factors - having others on the project who can step up in the event of someone's unforeseen absence.

Do what you can to take care of your employees and foster a great workplace culture to reduce turnover rates, and work to fill vacancies as quickly as possible with qualified applicants.

*Supplier risk is always there, but using various risk management strategies can help you minimize the impact.*

## **• Connectivity**

Today's world is always on, but connectivity between systems can break, causing issues. You can integrate systems in various ways, but the more you integrate and customize, the higher your risk.

Every customization or modification could mean spending more for upgrades, and systems that aren't integrated well could cause bottlenecks.

## **What to Do About It**

Make sure your system connectivity relies on a secure network. Create data backups and decentralize your data storage. Remove as many system vulnerabilities as possible by encrypting personnel devices.

When you choose to integrate systems, avoid medications and work with experts to maximize efficiency, as this will help boost profitability.

## • **Cyber Attacks**

Cybersecurity should be a top priority as hackers could easily bring down your entire supply chain network, if they so choose.

Data breaches are also costly, and could lead to reputational damage on top of the costs of recovering from the attack and securing your systems to avoid future cyber attacks.

### **What to Do About It**

Invest in top-of-the-line encryption and cybersecurity software. Beyond investing in a basic antivirus program, invest in tools like endpoint detection and response.

If you have remote employees, your risk increases, especially if they use their personal devices to access company information. Consider investing in company devices for your remote team to use so you have more control over the information that is accessed and shared.

Invest in cybersecurity awareness training to educate your staff about things like phishing and malware. This way, they know what to do if they suspect they received a phishing email or may have downloaded a suspicious attachment.

If this happens, endpoint detection can isolate the problem before it spreads to the rest of your network.

## • **Transport Loss**

The risk of losing goods in transport, or for shippers, losing the ability to transport goods always exists. Though it's possible for shippers to create stronger networks and back up plans, it's crucial for organizations to have a plan if the goods they were expecting don't arrive on time, or arrive at

all.

## **What to Do About It**

Always insure your shipments against loss, to give yourself a safety net. Find the carriers that you work with most often and learn more about their contingency plans, and look for carriers you can use should they become unavailable.

## **• Data Quality and Integrity**

You need strong quality data for supply chain management, as the wrong data could leave you with missed opportunities and lower profits.

While you should be cautious about a data breach, sharing it with the right partner providers can help you grow and improve your business.

## **What to Do About It**

Always validate your data for accuracy and timeliness because old data is useless. Invest in a real-time data monitoring system, so you can always trust your data and spot issues as they come.

## **• Supplier Consistency**

Less than half of suppliers can remain operational after a disaster. Disruption in consistency could happen as a result of any risk becoming a reality.

## **What to Do About It**

The procurement department is fully responsible for supplier consistency, which is possible through a strong yet diverse supplier network.

# Supply Chain Risk Management is Essential

No matter how likely any of these scenarios may be, it's critical to have contingency plans for all of them.

As the pandemic showed us, things happen to shake things up at the global level, and companies that were prepared and could pivot quickly were the most successful regarding supply chain resilience and business continuity.

To avoid shortages, conduct supply chain risk assessments regularly.

These will help you see the most vulnerable areas, so you can create and implement a plan to address the vulnerabilities and protect the organization.

By understanding these supply risks, your procurement team can take appropriate action to respond to these risks as they arise.

Risk management needs to be a part of your company's plans, and there are a lot of tools that can help you identify the risks that are unique to your organization.

From process improvement to strategic alliances and buffer strategies, the more prepared you are for anything, the better off you'll be.

Of course, not all potential risks are included on this list - but risk mitigation strategies are a crucial part of success for all businesses.

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