

A person in a red shirt and black gear is rappelling down a dark rock face. The background is a clear blue sky. The rock face is on the right side of the image, and the person is positioned in the lower right quadrant. The overall scene is one of adventure and challenge.

# Managing Supplier **Risk** with **Resilience**

Continuity plans can help organizations quickly handle supply chain interruptions and return to normal operations.

**S**upply management organizations are taking a transformative view of supply chain risk. Rather than just identifying it, assessing it and working to reduce it, they are adding another component: resiliency.

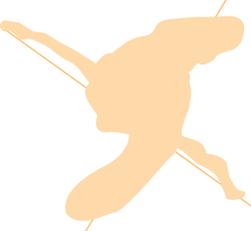
Being resilient means recovering rapidly and effectively from supply chain interruptions and risks that include natural disasters, issues with critical suppliers and unexpected changes or events. Not only are companies setting up their own internal resiliency plans to handle such interruptions, they're making sure their suppliers have contingency strategies as well.

### **BECOMING PROACTIVE**

Supply chain interruptions happen all the time. Some are easier to handle; others are more complex or have more impact. A factory shutdown could disrupt production of a key part. An unexpectedly large order could require increased capacity — as well as an additional supplier or manufacturing facility. A hurricane or other natural disaster may interfere with shipments, meaning parts must be shipped from elsewhere, or put a halt to shipping altogether.

## **2020 COVID-19 Update**

**The coronavirus (COVID-19) pandemic is causing organizations to rethink how they approach supply chain and organizational resiliency. Disruptions to supply, production, demand and logistics, among others, have challenged traditional operating processes while bringing about opportunities for new strategies and approaches to sourcing, supplier relationship management and remote working possibilities. Making resiliency a priority can enable supply organizations to improve their vulnerabilities, move forward and be prepared for the next crisis.**



# “INTERRUPTIONS ARE GOING TO HAPPEN EVERY DAY — AND **YOU CANNOT POSSIBLY PLAN FOR EVERY SINGLE ONE OF THEM.**”

— **Aaron Parrott**  
Deloitte Consulting LLP

Often, companies are reactive when interruptions occur because they aren't prepared to handle them. They might not immediately be aware of an issue, and delay in dealing with it. Or they might not be sure of its impact, and spend days or weeks figuring out what it means.

“Interruptions are going to happen every day — and you cannot possibly plan for every single one of them,” says Aaron Parrott, specialist leader in Deloitte Consulting LLP's supply chain and manufacturing operations practice in Kansas City. “But what you can do is figure out how to quickly respond and get back to normal operation.”

By making resiliency a priority, supply organizations can be prepared for supply risk: They will have options, strategies and solutions at the ready when an interruption occurs. By ensuring their suppliers are equally prepared, they will have critical products and components available when they need them. Their customers will be satisfied. And there will be minimal impact to the bottom line.

## GETTING CRITICAL

Parrott recommends developing a plan that creates resiliency in the most critical areas — generally, the top 15-20 percent of the company's product base —

because these have the most impact on availability of product and the bottom line. That means developing a resiliency plan centered around (1) the suppliers of those critical products, (2) their capabilities and (3) their contingency strategies.

These critical suppliers include single- and sole-source companies. An interruption that occurs to either of these can be catastrophic to revenue, says Rose Kelly-Falls, vice president, sourcing and customer engagement at Proxima, a procurement services consultancy based in Chicago and in the U.K. They also can include strategic, top-performing suppliers, top-spend suppliers and even smaller companies that provide critical parts. “A supplier may have only (US)\$100,000 of business from you; however, it could be critical to your supply chain,” Kelly-Falls says. “A lot of companies overlook that. They tend to focus on spend, not criticality and revenue impact.”

According to Parrott, factors to consider for each critical supplier include:

**Sourcing.** Among the questions to ask: Should I set up dual sources for critical products that are single-sourced? Do we need backup sources in case a supplier is unable to fill orders?

**Capacity.** Will the manufacturing facility be able to handle increased capacity if needed? Are there additional lines

that can be used? Is there a need for additional manufacturing locations in case one location experiences a breakdown in equipment? Do I ship parts from one factory to another to keep it running?

**Inventory.** Do I store inventory? Do I have the supplier keep a certain amount of inventory on hand?

Additionally, it's important to consider:

- **Time.** It may take a while — up to two years, depending on industry — to find and qualify another supplier.
- **Price/cost.** While dual sources might reduce risk, you may no longer receive the price and volume discounts associated with sole sourcing.
- **Alternate supplier availability.** It might be hard to find a new supplier for a part: Some may have limited capacity, whereas others may have limited capabilities, Parrott says.
- **Technological opportunities.** Technology systems can help companies learn about disruptive events in real time, so they can act more quickly.
- **Your critical suppliers' contingency plans.** “You want to understand the specifics concerning your critical suppliers,” Parrott says. “What are their plans when they have an interruption? And if you go to them when you have an interruption, how are they going to integrate and work with you?”

Kelly-Falls equates resiliency planning to “what if” analysis: What would you do if this happened, and then how would you handle it?”

## ZIMMER BIOMET'S APPROACH

By having a supply base that is resilient, a company is also more resilient, says John Manning, associate director of sourcing compliance and process improvement at Warsaw, Indiana-based Zimmer Biomet. "Nobody wants to have a situation happen, but when it does happen, we want to have a formalized internal process to manage it," he says. "Everyone sees the need. If something does happen along the supply base, we want to be able to say, 'Here's how we're going to handle it.'"

Developing a resiliency plan is key to reducing supply risk for Zimmer Biomet, which was formed in 2015 when medical-device company Zimmer acquired another medical-device company, Biomet. The company, which has operations in 25 countries, designs, manufactures and sells musculoskeletal health-care devices and recorded \$7.8 billion in net sales in 2017.

"We wanted to formalize our supplier risk-management program, which had been more ad-hoc," says Manning, who joined the company in March 2017, about the time the program took off.

By embarking on a resiliency initiative, the company set out to understand its critical suppliers' capabilities and resiliency plans — and if they didn't have plans, to work on developing them. "That our suppliers have resiliency plans makes us more resilient," Manning says.

Kelly-Falls, who was chief sourcing risk officer at Zimmer Biomet during 2017, says, "Zimmer Biomet has stressed that resiliency is very important, and that it wants its suppliers to be thinking about resiliency and developing a sense of strategy around it."

The program looks at three areas: single- and sole-source supplier risk, business continuity risk and financial risk.

As part of the program, Zimmer Biomet sent supplier assessments to more than

250 of the company's critical, strategic, preferred and top-spend suppliers. The 40-question assessments asked suppliers about:

- Their business continuity program, its maturity level, and how they conduct the programs
- IT recovery plans
- How they handle their own supply chain risks and business continuity
- How they would conduct emergency and crisis communication
- Their personnel and labor planning, should there be an incident where a critical labor skill was identified
- How risks are mitigated at their facilities and manufacturing sites, and whether they have processes in place.

"We've gotten a pretty good response rate so far," Manning says. Through the assessments, Zimmer Biomet has learned that some key suppliers already have continuity plans. Others have programs, but they don't meet Zimmer Biomet standards; the company is working with these suppliers to improve their systems, he says.

"Unfortunately, we've found that some suppliers are starting their continuity programs from scratch, or they have an informal rather than formalized system," Manning says. "So, we're also assisting them and providing them with resources and training. Many suppliers have remarked that they had been thinking of developing a business-continuity/risk-management program for a long time, and that this was the kick-start they needed. Others have said, 'We don't even know where to begin and we haven't even thought about this.'"

Mid-2018 is the target date for most suppliers to have resiliency plans established. "We're still monitoring that," Manning says. "When we get to that point, we'll have to make a determination about suppliers" that don't have plans in place, including reducing Zimmer Biomet's dependence on them.

He adds, "We're more than willing to assist the supplier with putting in a program through whatever resources we can, so that we all have a continuity plan in case something does happen. And then, we all are resilient. But if action isn't taken, our commodity leaders have communicated to our suppliers that their business with us will be put in jeopardy — the suppliers need to own this process."

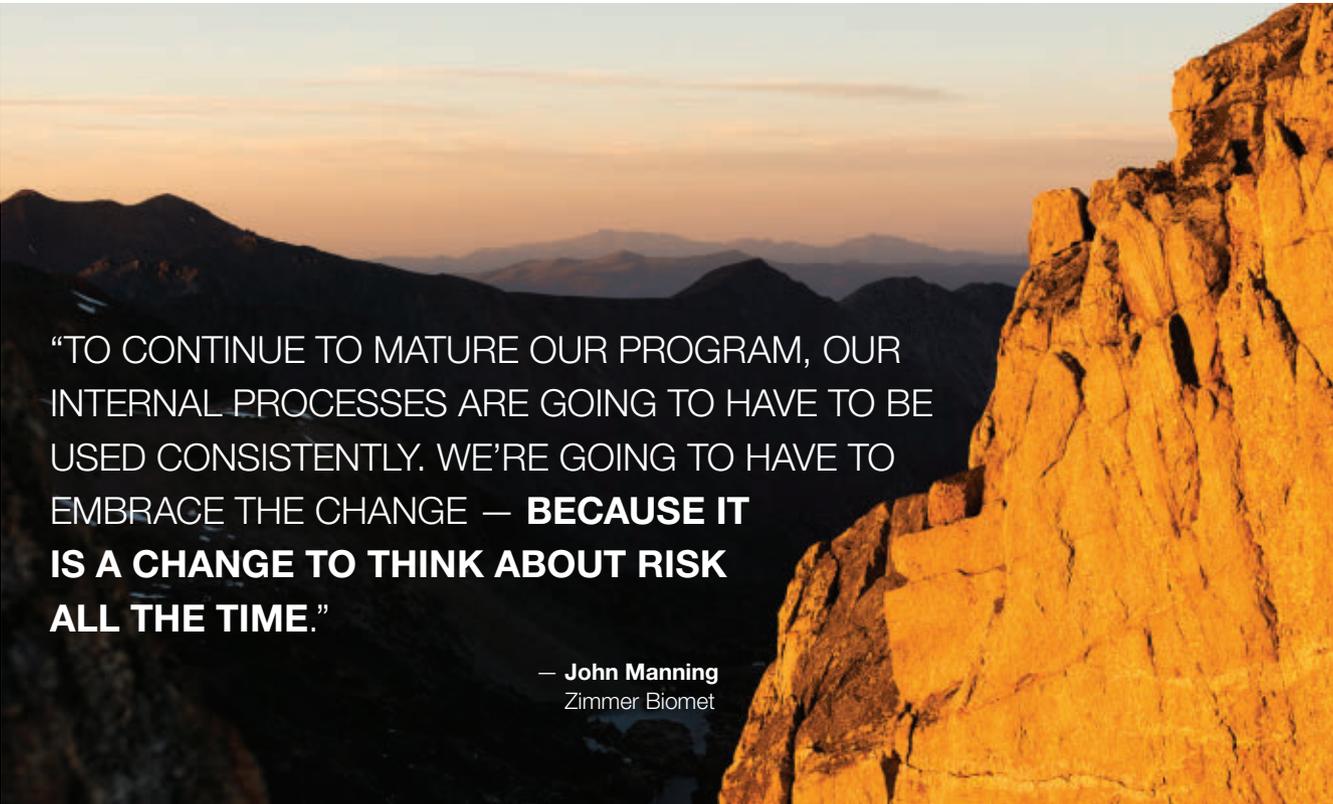
## SUPPORTING ROLES

A resiliency program isn't a quick fix. "I look at this as a journey, not a destination," Kelly-Falls says. "It takes time. And it takes effort to make sure it's sustainable." That means getting company executives and stakeholders onboard with the process.

"Collaboration has to begin at the top," Kelly-Falls says. Many times, however, companies begin such initiatives at the middle-management level, she says. "They're trying to get budgets and funds, resources and technology, and the senior leadership team says, 'Sorry, we're not giving you the money.' At that point, the initiative gets squashed. So, for this to be embraced, it must start at the top. That's also relevant at the supplier level — the supplier's CEO must buy in to ensure the supplier is buying into the company's overall risk management strategy."

Kelly-Falls says that, in her experience, making the program sustainable is challenging for most companies: "They develop internal processes and plans, but they can't maintain them." To be sustainable, she says, "Up front, it's going to be a lot of work because we need to identify, prioritize and collaborate internally and with our suppliers — develop a plan and then continue to monitor it.

"A lot of organizations try to overcomplicate the process," she continues. "What happens is they stop doing it over time because they can't get the buy-in from either cross-functional team members, or their own organization determines it's too busy and can't continue



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to follow the process. It’s important that it be simple: That way, it’s sustainable, and you can rely on it.”

Zimmer Biomet’s effort has had a lot of stakeholder support, Manning says. Category teams support the initiative “through identification of risk and through mitigation plans,” he says, adding, “I’m the facilitator, but the category teams drive the actions that need to be done to mitigate risk and lower our risk threshold. In addition, support for selective added inventory and critical dual sourcing has required cross-functional support. Our prioritization of risks has allowed us to make the business case to drive these initiatives forward.

“To continue to mature our program, our internal processes are going to have to be used consistently. We’re going to have to embrace the change — because it is a change to think about risk all the time.”

### **A FUTURE OF RESILIENCE**

Zimmer Biomet would eventually like to extend the resiliency program to as

much of its supply base as possible. “We began with the highest-risk, highest-spend suppliers, including indirect suppliers from MRO to robotic equipment,” Manning says. “We still have a long way to go to cover our entire supply base, but through deep-dive monthly intensive reviews, we continue to refine and expand our approach.”

Having a resiliency plan will enable Zimmer Biomet to take a more proactive, not reactive approach when events occur, he says: “We are actively mitigating the risk, so that if an interruption does happen, we can just activate our mitigation plan.”

Kelly-Falls says, “Zimmer Biomet is a great example of an organization that determined the need to move forward with a resiliency program, had the support from the top and didn’t waste any time in driving it across and into the organization. The company has taken it slow but with the intention to ensure the program is sustainable for the long term. It also wasn’t shy about

sharing expectations with suppliers and encouraging them to start developing resiliency programs, so together they would be able to support their customers.”

For instance, Zimmer Biomet took proactive steps with its suppliers during the 2017 hurricane season to ensure supply disruptions were minimized, Manning says. Backup generators were used to maintain power, logistics companies were tabbed to move inventory out of the path of the hurricanes, and communication systems were put in place in case service was interrupted.

As supply chains become more complex — and as interruptions continue to happen — more companies will be taking a closer look at resiliency. “It’s going to become more important to have such a plan,” Manning says. “The more agile we can be, the quicker we can be, the more versatile we can be, and the better we can compete.” **ISM**

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