



**institute for
supply management**

**Supply Chain Risk
Management Group**

HIGHLIGHTS

- **Small businesses are still challenged as they address supply chain risk.**
- **Is the Dodd-Frank requirement on conflict minerals impacting your company?**
- **Learn how you can mitigate risk as you establish contracts with your suppliers.**

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A Bit on Risk

VOLUME 1 ISSUE 2

APRIL 1 2013

Reducing Supply Risk Isn't Just for the Big Guys

As supply risk continues to grow as a business challenge, supply risk information and awareness have been spreading. Many approaches to supply risk identification, management and mitigation have been evolving. Firms can choose from many software solutions, hire consultants, read books, and attend meetings and conferences on the subject. As supply risk has become a more mainstream issue for firms and addressing it has gone beyond just early adopters, more solutions have become available. However, addressing supply chain risk still remains a larger challenge for the small business, which doesn't typically have the budget or resources for niche software solutions or expensive consulting services. What, if anything, can these smaller organizations do to address supply risk? The key is: *know your suppliers*.

Here are some important actions small businesses can take to reduce supply risk:

- Make sure that you have a good process in place for selecting the best and most reliable suppliers for your business
- Identify your critical and key suppliers
- Develop closer business relationships with and get to know those suppliers. Understand *their* business issues and challenges.
- Measure and understand a few basic key performance indicators (KPIs) in order to identify, understand, and prevent risk situations. Supplier performance is a leading indicator for risk and often the best (and only) indicator for smaller suppliers for whom publicly available information can be unreliable.
- Understand the early warning signs of supplier trouble (e.g., lengthening cycle times and delivery times, top management changes, etc.)
- Communicate regularly with other stakeholders in your organization to share information about issues that can impact your firm's supply risk (e.g., with accounts payable, quality, customer service).

Develop plans to address supply risk situations when they do inevitably occur.

For a small business, the above suggestions cost more time than money. Being small can (and should) mean fewer suppliers to get to know and track. Focus on the vital few; that is, the 10-20% of suppliers who have the most impact on the business. Understanding their performance can be done with a few simple metrics. Or use web survey tools to ask internal stakeholders about how suppliers are doing. Developing closer relationships with key suppliers and understanding supplier performance are among the best and most underrated ways to prevent supply risk.

Small businesses can use their size to their advantage, as they often have more flexibility to make decisions and can react and make changes more quickly than a larger company. Key decision makers are often more accessible. These advantages can help reduce the disadvantages of fewer resources.

Small businesses are not exempt from supply risk. And even small businesses can plan for supply risk, take steps to prevent it and mitigate it when it occurs. Doing so can prevent potentially costly and devastating impacts. –Sherry Gordon ISM SRMG Board Member, President Value Chain Group





When It Comes to Risk, Information Is Power –So Manage It Wisely

I've seen many inspired and highly successful supply risk management programs – each bearing the unique mark of their organization. Every one employs a smart combination of three essential elements: People empowered to interpret the changing dynamics of risk and take action, processes and tools that are used daily, and best-in-class information governance. I'll talk a bit about this last piece.

Ten years ago, every CIO I met believed his data quality issues had long been resolved.

But the data problem wasn't buttoned up then – and it often persists today, magnified a hundred-fold by the volume and variety and velocity of data that fuels any supplier risk management program.

Consider this: According to a 2011 Gartner report, the primary reason for 40% of failed business initiatives is due to poor data quality. Another Gartner report published in 2012 states that the amount of structured data managed by companies grows by 40% each year; unstructured data at twice that rate. The gap is in what companies actually do with all of this data to make it actionable.

Early insights – and being able to connect the dots to understand the potential impact of risk – makes all of the difference between a fire-drill with a major revenue impact or a broader set of intervention options. Certainly, a lack of data or incorrect data can just as easily lead us down the wrong path. All too often, a supplier risk problem is really an information management problem.

-Jim Lawton ISM SCRMG Board Member
President and General Manager-Dunn & Bradstreet

Should we Embrace or Fear Social Media in our Supply Chain?

Rapidly becoming a major component of conducting business, social networking can be a powerful tool for supply management leaders looking for new sources of innovation, monitoring commodity trends, and collaborating with customers, suppliers and stakeholders. Yet, ignored or absence of a strategy, chatter on blogs, Facebook, or out there in the Twitter sphere can turn up the volume on social, regulatory and service disruptions in your supply chain damaging your company's brand and reputation. The reality is that with today's around the clock media coverage, the Internet and social media sites have reduced company's response time to supply chain disruptions from weeks and days into hours and minutes.

So should we embrace the opportunity or fear the risk of social media in our Supply Chains? The answer is YES.

At its core, **social media is about communication, sharing and collaboration.** The same characteristics that are vital to the success of any supply chain. Building a community of suppliers where information, opportunities, and thoughts can be shared and built upon in real time will become a key supply chain differentiator. The key to harness this tool is to start to brainstorm answers to questions like- How could you use social media tools to understand the environment across your key stakeholder base? How could social media increase the speed in communicating risk events across your organization?

The framework to protecting your company's reputational assets is similar to managing other vulnerabilities in your supply chain. First, understand what Reputation/Brand risks are relevant to the organization, and how likely and where they will occur. You then need to develop a plan to manage. You can start simply with understanding which media headlines you like least or like most. What would you like to see about your organization? Is there an event or situation that could trigger a reaction? Don't let the fear of the unknown stop your company from taking advantage of the opportunities that social media represents.

-James Ezell ISM SCRMG Board Member, VP and CFO Performance Food Group-Virginia



Conflict Minerals: What Do I Need to Know?

A lot has been written lately on the new legislation involving conflict minerals, but what are the highlights and crucial information that you should really know? We will try to narrow it down here.

In August 2012, the *Dodd-Frank Wall Street Reform Act* (section 1502) was enacted in the United States by the Securities and Exchange Commission (SEC).¹ It requires all publicly traded companies under SEC jurisdiction to *report their usage and sources of conflict minerals—tin, tungsten, tantalum and gold (also referred to as 3TG)*²—which are contained in, or used to manufacture, their products.

Background:

Conflict minerals are mined in conditions of armed conflict and human rights abuses in the Democratic Republic of the Congo (DRC) and adjoining countries. The Conflict Minerals are passed through a variety of intermediaries before eventually being purchased by multinational electronics companies and used in the manufacture of a variety of devices, including consumer electronics such as mobile phones, laptops and MP3 players. Congress found potential connections between American company profits and atrocities in the DRC and therefore included Section 1502 in the Dodd-Frank Act.

Reporting:

Beginning in the calendar year 2013, all publicly traded companies that use the four conflict minerals in their products will be required to report the source of these minerals as either coming from the Democratic Republic of the Congo or from other regions. *First disclosure reports must be filed on May 31, 2014 for the 2013 calendar year and annually on May 31 every year thereafter.*

Also, privately owned and foreign companies that supply these manufacturers with the four conflict minerals will be impacted by the Reporting Requirements since the information gathering necessary will be pushed down through the entire supply chain. Suppliers of 'affected' manufacturers will also need to become familiar with the reporting requirements.

The Reporting Requirements¹ state that when a Conflict Mineral is "necessary to the functionality or production" of a certain product, then it must be included in a manufacturer's Conflict Minerals Report. Producers of products that contain even only trace amounts of Conflict Minerals will be 'affected' manufacturers as well. If a Conflict Mineral is only used as a catalyst during production and is not found in the final product, then it is not required to be reported. If a tool used in production of a product contains Conflict Minerals, but the final product does not, then the Reporting Requirements are not triggered, either.

Of course, with many long and complex supply chains, it will be near impossible to determine the origin of many materials. So, the regulation requires that companies document and independently audit their efforts at due diligence to the greatest degree of specificity possible. The electronics, communications, aerospace, automotive, jewelry and industrial manufacturing industries, in particular, are impacted due to the necessity of Conflict Minerals in their products.

Contributed by Edda Rottscheidt— ISM SCRMG Board Member , Director Market Management Risk Solutions, Lexus Nexus

¹ SEC Ruling: <http://www.sec.gov/news/press/2012/2012-163.htm>

² Conflict Minerals: http://en.wikipedia.org/wiki/Conflict_minerals

Additional resources:

The Definitive Guide to Conflict Minerals Compliance for Manufacturers -

<http://agmetminer.com/definitive-guide-to-conflict-minerals-compliance-for-manufacturers/>

Conflict minerals - What you need to know about the new disclosure and reporting requirements and how Ernst & Young can help – [conflict minerals](#) located on the ISM Risk Group Web site publications page

Contract Writing as a Critical Element of Supplier Risk

The procurement/supply chain profession is clearly transitioning from the historic role of placing purchase orders to the contemporary role of developing and managing comprehensive contracts with strategic suppliers.

For many manufacturing and service organizations, the supply chain presents the most significant risk to economic profitability or even organizational viability. The role of identifying and mitigating supply chain risk has therefore become more visible and prevalent for many organizations.

PREMISE. Supply Management contracts should provide an appropriate allocation of the risks between the parties. These risks include the commercial risk associated with the manufacture of the product or performance of the service, as well as the legal risks associated with, or arising from the transaction, such as injury and/or financial loss.

The increased emphasis on supplier risk mitigation and contract writing has created a need for supply management professionals (SMP) to develop and refine our contract preparation and contract management skills. For some of our more complex transactions, there will also be a need to develop contract administration and management skills beyond that which has heretofore been required.

This article will provide a summary of some key elements of contract writing and contract management which are imperative for risk mitigation in the contemporary procurement/sourcing environment.

BASIC CONTRACT WRITING. Volumes have been written on this subject, and it is impossible to completely cover such a complex subject in limited space. However, the following are a few of the key elements of contract writing, which will apply to virtually any contract, regardless of the commodity/service being procured, or the dollar value of the transaction.

Start at the RFP/RFQ Stage. The procurement process starts with the RFP or RFQ, and the contract drafting process should commence concurrently. It is important to note that any terms and conditions which the SMP intends to be included in the ultimate contract should be incorporated into the RFP/RFQ. If we attempt to insert substantive contracting terms after proposals are received, suppliers may have to revise pricing or other proposal elements to address such new terms. The key is to consider the end result desired in the contract when drafting the RFP/RFQ.

Consider the circumstances/requirements for each transaction. There is really no “boilerplate” which will provide appropriate language for all of our substantive transactions. Practicality necessitates the use of some standardized clauses; however, this author’s experience indicates that such clauses can be a “trap” if utilized indiscriminately. The sourcing professional should therefore custom tailor clauses for all significant issues that must be addressed in the contract. We will need to look to alternate sources such as our Law Departments or formbooks for appropriate clauses to adequately cover some of the more complex issues. However, never incorporate specific language provided for one contract into another contract without reviewing it for specific applicability. If in doubt, consult the organization’s Law Department.

Use templates – but cautiously. The modern electronic work environment enables us to utilize contracting templates, so we do not have to create each contract from scratch. Such templates can save significant time; however, they can be problematic if not carefully utilized. This author has frequently seen contracts for procurement of services, which contained provisions intended for purchase of a commodity. This is usually because the drafter utilized a template, but overlooked the need to remove inappropriate provisions. Unfortunately, they may have even failed to include important provisions for that transaction by inappropriate use of a template.

Look for the continuation of this article which will be featured in the July Edition of the Newsletter.

Ernest Gabbard, JD, CPSM, C.P.M., CPCM, recently retired as the Senior Executive for Corporate Strategic Sourcing at the global headquarters of a Fortune 1000 corporation with annualized spend of ~\$4B. He is a former ISM Supply Chain Risk Management Group Board Member and serves as an advisor to the Board. He is an active member of the ISM SCRMG.



Meet & Greet at International Conference

The Risk Group Membership Committee would like to invite all members (and non members) of the ISM Supply Chain Risk Management group to join us for networking opportunity at the ISM International Conference. Plan to stop by and unwind while light appetizers and drinks will be provided. ***The “Meet and Greet” will be held on Monday, April 29th from 5-7 pm CST in the Grapevine Room at the Gaylord Convention Center.***

The Risk Group Membership Committee would like to remind all Risk Group members of opportunities to connect and network during the ISM International Conference. Each of these is also a great way for non-members to familiarize themselves with our group and to sign up to join us as Supply Chain Risk Management Group members.

2013 ISM Risk Conference

LEVERAGE THE UNEXPECTED is the theme for the 2013 ISM Risk Conference which will be held July 25 and 26 at the Chicago O’Hare Marriott. Join us to discover how organizations confront risk using innovative tools and processes across a variety of organizations across multiple industries. The program will include take-aways and tools to apply to your enterprise. Conference registration can be completed on line at www.ism.ws/conferences/content.cfm?itemnumber=23500. Hotel reservations can be made at www.ism.ws/3673 use group code **ismisma**. **We look forward to seeing you there!**

A Seminar on Business Continuity ... Understanding Its Importance in Managing Supply Chain Risk

On July 23-24, in conjunction with the Risk Conference in Chicago, ISM is offering a two-day seminar that provides an opportunity to explore and better understand business continuity and its role in managing supply chain risk. While the seminar, **“Business Continuity Planning: Risk Management Through Strategic Preparation”** was specifically designed for professionals who are responsible for purchasing, supply chain management, contract management and procurement, it will also benefit others who want to better understand supply chain risk management.

The interactive, hands-on seminar provides

an opportunity to explore the business continuity planning lifecycle with a focus on its application to the supply chain. Seminar discussions include best practices for developing and maintaining a comprehensive business continuity program that fully incorporates supply chain business units. Participants will complete a basic assessment of their organization’s current supply chain continuity capability, explore how to identify and mitigate supply chain risks, and participate in tabletop exercises.

The seminar is led by Betty Kildow, CBCP, FBCI, and ISM Supply Chain Risk Management Group Board Member and author of “A Supply Chain Management Guide to Business Continuity.”

For details or to register for Seminar #4217 (14 continuing education hours): <http://www.ism.ws/education/seminardetails.cfm?ItemNumber=23477>



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Affiliate support:

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Upcoming Webinar Events:

April 11 1:00 EST

Lisa Riesman "Commodity Risk"

June 13 1:00 EST

"What can Supply Chain Risk Management Learn from Credit Risk?" Presented by Michael Denton, Partner, Global Risk & Trading Practice, Oliver Wyman

**STAY TUNED FOR ADDITIONAL
WEBINARS in 2013**



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Message from the Chair

When I joined the ISM Risk Management Group about three years ago I was looking for a group that I could network with and learn as much as possible about supply chain risk. I was really interested in learning how other companies were approaching risk management. I had been asked to take on the "risk management" initiative in my own organization and I needed an outlet in order to gather information. When I joined as a member the group was small and was just getting off the ground. I am amazed how the group has grown over the last few years. We have a board that is made up of both experienced practitioners and advisors with a wealth of knowledge on supply chain risk. We have an active website, webinars and now a newsletter. We have come a long way!

As we head into the year, the ISM Risk Management Group continues to gain tremendous momentum not only from the board initiatives but from the ongoing interest that we have received from our current group members and other ISM Groups and Forums.

One of my goals as the 2013 Group Chair is to focus on serving the group members. However it became evident that we have not formally asked our members "What do you want to gain from this group? Is it infor-



mation via webinars, articles that we find that can be shared on our website or the ability to network with supply chain risk professionals?"

In order to find the answers we recently sent out a survey to all current group members asking for your input. I encourage you to participate. We are truly interested in your feedback so we can develop content and information that interests you. If you did not receive the survey you can respond by visiting <http://www.ism.ws/surveys/index.cfm?SurveyID=1251>. Please take the time and let us know how we can serve you.

Until next quarter-

Rose Kelly-Falls