Market Guide for Supplier Risk Management Solutions

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Initiatives: Technology and Solutions for Supply Chain and Operations; Direct Material Sourcing and Supply Chain Services; Procurement and Strategic Sourcing Applications

The market for supplier risk management solutions has seen a resurgence due to the massive impact of COVID-19. This research will help supply chain technology leaders supporting sourcing and procurement identify prospective solutions to monitor, manage and mitigate supplier risk.

Overview

Key Findings

- In a recent Gartner survey, 97% of survey respondents reported that their supply chain organization had faced some type of disruptive event over the past two years.

- The software market to address supplier risk remains highly fragmented, leaving companies with almost too many options.

- Users of technology are able to monitor and analyze supplier risk events in real time or near real time. Thus, they can begin risk mitigation efforts quicker and contain potential impacts.

Recommendations

Supply chain technology leaders supporting supplier risk should:

- Make technology a foundational part of their supplier risk management program, but understand that it's not a panacea for wiping out risk. But technology is quickly becoming a requirement to enable business continuity and offer a competitive advantage.

- Prepare to use a combination of solutions with foundational systems, providing support for master data, transactions and more, and specialized software, for such specific functions as financial reporting or sustainability reporting. No one technology solution can cover every single type of risk that affects suppliers.

- Match the technology to the types of risk being managed. Many types of vendors address risk, but not all of them address the same types of risk. Additionally, there are functional differences between
Market Definition

Supplier risk management enables sourcing and procurement professionals to track events or attributes that can impact their suppliers' ability to fulfill orders. Such parameters include unpredictable shocks (e.g., weather and COVID-19), supplier financial performance, corporate social responsibility ratings, regulatory compliance and capacity. Supplier risk can be managed as part of a sourcing suite or with best-of-breed technology.

Supplier risk is a subset of supply chain risk, which looks at a broader set of risks, both internal and external, that affect not just the suppliers, but the entire supply chain end to end. End-to-end (E2E) supply chain risk management (SCRM) aims to make businesses resilient to supply chain risks across the physical and digital ecosystem. It combines the strategic design of products and network with tactical optimization flow and operational mitigation of and response to disruptions. It is strengthened by technology used for risk identification and monitoring, holistic risk impact analysis and coordinated operational mitigation/response. Additional categories often managed by end-to-end supply chain risk include inventory, competitive pressures, demand variance, talent/skills gaps or shortages, reputation, intellectual property and more. Roles associated with supply chain risk are not limited to sourcing and procurement and may be part of supply chain, logistics, operations, legal and finance.

Additionally, supplier risk management is not synonymous with third-party risk management (TPRM), which is broader in scope and definition. TPRM goes beyond an arm's length relationship (e.g., includes regulators, subcontracted service providers and other partners) and typically does not link real-world events to supply chain impacts. This Market Guide does not feature any companies that are purely services or consultancies, market risk or geopolitical risk advisors. However, service providers may also prove useful in monitoring, managing and mitigating supplier risk.

Market Description

Supplier risk comprises a varied assortment of risks, but for the purpose of this Market Guide, we are focusing on the following common categories (see Figure 1):

- **Events**: Refers to supply chain disruptions caused by weather, geopolitical events and other hazards. Events are linked in real time or near real time to suppliers and supply chain transactions (e.g., orders, shipments, manufacturing) that are at risk. This includes the ability to map the impact visually to gauge the impact to the suppliers and how it may affect orders. Sourcing and procurement professionals can use this information before placing orders or to reallocate unfilled orders. Event monitoring may also prove useful to other supply chain roles, including logistics and transportation managers, who may use the same platform. However, this Market Guide is limiting the scope to the sourcing and procurement professional.
Financial: Identifies the financial viability of a supplier, and whether the supplier is currently experiencing, or likely to experience, any financial issues that will impair its ability to fulfill obligations toward an organization and its own supply chain.

Corporate social responsibility (CSR): Combines supplier compliance with legal, ethical, safety and social compliance (e.g., supplier diversity) and sustainability ratings. This may also be called environmental, social and corporate governance (ESG).

Performance: Creates and manages supplier performance dashboards that can track many metrics, including risk to provide a holistic supplier view. Examples include quality metrics, logistics metrics (e.g., on-time delivery performance), payment metrics and more alongside key risk indicators such as vesting balance, spend concentration and financial strength. These modules are often part of broader strategic sourcing suites.

Compliance: Refers to regulatory and compliance mandates that are often managed by a category of software called third-party risk management. Some vendors can address both and have been included in this Market Guide. This type of functionality is often used by legal, compliance and finance departments to check all third parties (not just suppliers) against anti-bribery, anti-money-laundering, restricted party screening lists, background checks and more. It can also include monitoring compliance to other government agency requirements (e.g., OFAC, FDA, USDA).

Capacity: Refers to something that is often cited by end users as a top risk when mentioning suppliers. However, it is not easily solvable through risk software. Supplier collaboration hubs (e.g., E2open, SupplyOn, SourceDay) and supply chain planning applications often prove more useful in mitigating supplier capacity issues. But some of the sourcing-oriented platforms can offer some visibility into potential capacity issues, usually by tracking current order status, performance against order history, supplier responses and acknowledgments.
Market Direction

Gartner has seen a resurgence in inquiries for supplier risk management technology in response to the global pandemic of COVID-19. As a result, many vendors are positioning themselves as supplier risk management solutions. To illustrate this point, ask someone, “How do you define supplier risk?” You’re likely to get a wide variety of responses. Trends impacting the supplier risk management solution market:

- **COVID-19 and other unpredictable shocks (e.g., extreme weather, earthquakes, wildfires, stock market crash):** The coronavirus has taken a toll on public health, the economy, and the purchasing patterns of corporations and consumers. In the months since the onset of the pandemic, there have been significant changes in what goods are bought, how they are purchased and how they are delivered. It’s drastically affected both supply and demand, and companies are using this time to reevaluate technology solutions to help mitigate future COVID-19-like events.

- **Application diversity:** The functionality to support supplier risk management and the vendors that offer solutions vary depending on how a company defines risk. If risk is primarily a performance management issue, then your supplier information management application or your sourcing suite may be the best tool. If it’s supply chain disruptions, then you may prefer a broader supply chain risk platform like DHL Resilience360, Elementum, Resilinc or riskmethods. Many of the solution providers partner with each other to complement their corresponding offerings. Examine the foundation
systems you have first (e.g., ERP, sourcing suites, supply chain risk platforms), identify the use cases and then match those use cases to the available solutions. Be prepared to look at more than one solution to provide a holistic view into all your supplier risks.

- **Prevalence of AI/ML**: Historically, risk management solutions have been either historical in nature or built to monitor events in real time. Embedded AI/ML gives solution providers the ability to offer customers more refined financial risk scores, better impact modeling and the beginnings of predictive analysis. In fact, in a recent Gartner survey, when asked what tactics are used to manage supply chain disruptions, 45% of respondents stated they currently use predictive analytics to identify and monitor disruptive events, including supplier risk events.²

- **Focus on resilience**: There is no doubt that the outbreak of COVID-19 has brought renewed interest in the supplier risk management solutions market. But as many companies have come to terms with the new reality, the focus is shifting to how best to prepare one's supply chain to deal with future shock events like COVID-19. Supplier risk management solutions can support the sourcing strategy by identifying key suppliers, components or geographies that are at risk. The solutions should also link to actual supply chain transactions (e.g., orders, work in progress, shipments) to measure value at risk.

- **Need for supplier visibility**: Gartner is starting to see an overlap between inquiries about supplier risk and supplier mapping. Supplier risk management solutions are not meant to function as network modeling tools, nor do they create a digital twin of the supply chain. Most supplier risk solutions can monitor risk to the subtier level, provided that the customer supplies the tool with those relationships. The vendors that help find these relationships are the exception. Likewise, most modeling tools are not meant to monitor supplier risks in real time. However, there is a natural synergy in these requests, and we expect more partnering or development across the domains.

**Market Analysis**

Prior to COVID-19, risk was already in the top eight business priorities for CEOs with emphasis increasing year over year.¹ However, the crisis has both increased the frequency of risk reporting in many businesses (see COVID-19 Bulletin: Executive Pulse, Week of 18 May 2020) and unveiled supply chain capability gaps that CSCOs are now being urged to cover. These gaps range from supplier visibility to contractual limitations and demand uncertainty. For example, 39% of manufacturers are increasing investments in technology in response to COVID-19, with only 22% decreasing investments and the remainder either delaying investment or making no change (see Executive Pulse: Digital Priorities Evade the Budget Lockdown, 22 May 2020).

Further illustrating this point, Gartner's recently conducted study on supply chain disruptions reveals that 97% of survey respondents reported that their supply chain organization has faced some type of disruptive event over the past two years.² In fact, respondents reported an average of four disruptive events over that time period. (See Figure 2.)

But it’s not all bad news. In fact, many organizations use supply chain disruptions to refine playbooks and secure investments for future mitigation and response.
Figure 2: Disruption Mitigation Tactics Currently in Use

Multiple Responses Allowed

- Use Disruptive Events to Refine Playbooks and Gain Additional Resource Investment for Future Mitigation and Response
- Actively Consider and Shape Supply Location Concentration (e.g., Not All in China)
- Performance-Based Contracts With Suppliers and/or Customers
- Dual or Multisourcing Supply
- Require Suppliers to Have Multiple/Alternative Sites
- Playbooks That Vary by Type or Severity of Disruption
- Pretest and Drill Disruption Playbooks, With Defined Roles and Responsibilities During Disruptions
- Standardize and Reuse Components Across Products to Reduce Complexity

n = 585 Supply Chain Professionals
Q. What disruption mitigation and response capabilities or activities currently occur within your supply chain?
Source: Gartner's Supply Chain Disruption Management and Impact Survey, 2020
Note: 1% are involved in all activities: 24% in both “design” activities; 3% in all “operate” activities.
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Supplier risk management solutions need to support the following abilities:

- **Monitor**: Provide visibility into risk events through dashboards, reports, maps, alerts and notifications.
- **Analyze**: Measure the potential impact to a customer’s suppliers and provide an impact summary.
- **Mitigate**: Provide functionality to support mitigation efforts through action plans, workflow and recommendations.
- **Learn**: Apply machine learning to fine-tune future recommendations and impact analysis.

In addition to the core capabilities listed above, there are additional important evaluation criteria. Supplier risk solutions need to address:
Robust partner ecosystems: No one vendor can cover all types of risk equally well. Additionally, many companies have already invested in various ERP, sourcing, or supply chain systems that need to integrate and work with risk solutions. Supplier risk solution providers need to partner or at least integrate with weather services, financial reporting services, CSR rating services, cybersecurity platforms, sourcing applications, ERP systems and more.

Integration methodology and capabilities: Providers need to be able to connect through EDI and APIs and have standard templates for integrating to common back-end systems. Additionally, providers may also have to incorporate IoT data as asset tracking becomes more prevalent.

Advanced analytics: Advanced analytics doesn't refer to only dashboards and reports, although they are part of it. It also refers to the concept of embedding the insight generated by the analytics engine into the screens and workflows of the system user. In other words, in the real-time world of event monitoring, sourcing and procurement professionals don't have the time to submit a request to the IT team for a report that sits in a queue for two weeks. The information needs to be available immediately in the screens and dashboards already being used by the business owner. Dashboards need to be both visual and convey top-level information as well as offer drill-down capabilities to get to the transactional data, which is still often rendered in list format.

Data quality: Refers not just to the supplier information, which is often the responsibility of the customer, but also the quality of the risk events measured and their correlation and appropriateness to the customer’s supply chain. Data quality also refers to the preciseness of the information. For example, it’s not good enough to only track the headquarters of a supplier if manufacturing is happening at a different site altogether. Actual sites and nodes need to be tracked.

Supplier discovery: Most supplier risk management platforms are not meant to function as supplier discovery tools, but some providers are looking at ways to support this use case. It requires a multitenant architecture and commercial agreements that allow for the sharing of basic, noncompetitive information, as well as AI and/or ML, to analyze the appropriateness of a potential new provider.

Supplier visibility and mapping: As mentioned earlier, most supplier risk management platforms are not meant to function as modeling tools or supplier relationship management tools. However, more companies are demanding this type of functionality from their risk provider, and it makes logical sense. How can companies truly measure risk if they don't have the ability to measure it down to the nth tier of their supply chain?

Value at risk: A supplier risk management platform is of limited value if it can't tell how much value is at risk. Unfortunately, not every provider can link the external risk events to actual supply chain transactions (e.g., orders, shipments, work in progress). Even when they can, it requires additional integration and cost, which often makes the overall investment seem not worth the time or money. However, this link is necessary to be able to react to events in a timely manner.

Multitenant architecture: Most supplier risk management solutions are cloud-based, but not all of them use a multitenant architecture where customers are on the same version of the application and
have access to community-generated intelligence. For example, without this type of architecture, any analysis of risk will only look at a company's own data and not any additional elements created by the community at large. In addition to this type of architecture, the vendor would need to have the proper commercial terms in their contracts to allow for the use or sharing of community-generated but nondisclosing information.

Representative Vendors

Market Introduction

We've chosen to categorize the vendors by the major types of risk they support natively (i.e., not through partners). For example, only vendors that source financial information themselves are given credit for addressing financial risk. These vendors often partner with broader suite vendors that would not receive an X unless they also function as a primary source of financial information. This is why buyers should prepare themselves for considering more than one solution to meet their supplier risk management needs. See Tables 1 and 2 for detailed lists of the vendors’ overall capabilities and general corporate information.
### Table 1: Supplier Risk Management Vendors by Area

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<th>Performance Management</th>
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Source: Gartner (November 2020)
The vendors listed in this Market Guide do not imply an exhaustive list. This section is intended to provide more understanding of the market and its offerings.

Market Recommendations

Risk management professionals should tread very carefully into the supplier risk management marketplace. Many companies are convinced that a technology vendor and solution will provide the complete answer to their risk management challenges. However, those that lead with technology most often suffer from inflated expectations and unmet risk management needs. It is imperative that companies design and build a solid framework and set of metrics before evaluating a supplier risk management vendor. Supplier risk management initiatives must include input from other groups, including IT. Survey your current landscape for applications that may provide a role in supplier risk management.

Source: Gartner (November 2020)
We recommend following these steps prior to engaging with a software vendor:

1. Create a cross-functional team to create a risk framework to support risk-based decisions.
2. Brainstorm potential supplier-related risks that could impact the business.
3. Rate risks to create a prioritized list of business risks.
4. Plot a risk tolerance frontier.
5. Create risk mitigation plans by type of risk and supplier tier.

For further details, see Gartner's Ignition Guide to Managing Supplier Risks.

Once these steps are in place, you can proceed with your software selection process. To identify the most suitable software vendors:

- Match prioritized risks to the list of software providers.
- Use a best-of-breed approach when evaluating providers.
- Identify how your risk management project fits into your overall IT strategy. For example, do you want your supplier risk capabilities to stand alone, or would you prefer them to be part of your supplier information management tool or sourcing suite? Do you already have an integrated risk management (IRM) platform that could also address and support the type of supplier risk you are prioritizing? This will help guide your selection.

Evidence

1 Gartner conducted the 2020 CEO and Senior Business Executive Survey from September through December 2019 to examine CEO and senior business executive views on current business issues as well as some areas of technology agenda impact. Gartner qualified and surveyed 444 business leaders via an online survey (362); an additional 70 surveys were done by telephone interview, and 12 were self-administered paper surveys. All respondents were screened for active employment in organizations greater than $50 million in annual revenue. The sample mix was by:

- Role:
  - CEOs = 265 responses
  - CFOs = 89 responses
  - COOs = 19 responses
  - Chairman, president, board of directors or other C-level = 71 responses
The survey was developed collaboratively by a team of Gartner analysts who examine IT’s role in business, and was reviewed, tested and administered by Gartner’s Research Data and Analytics (RDA) team. The results of this study are representative of the respondent base and not necessarily business as a whole.

2 Gartner’s Supply Chain Disruption Management and Impact Survey, 2020: This study was conducted to determine the types of disruptions that impact supply chains (positively or negatively), establish parameters that make a company fit or fragile when dealing with a disruption or turn, and identify the competitive and performance impact of supply chain disruptions. The research was conducted online from 31 March 2020 through 18 May 2020.

In total, 585 respondents were interviewed in their native language across North America (29%, n = 172; countries including the U.S. and Canada), Western Europe (39%, n = 225; countries including the U.K., Germany and Spain) and APAC (32%, n = 188; countries including Australia, Singapore and China):

- Qualifying organizations operate in the manufacturing and retail industries and report anticipated enterprisewide annual revenue for fiscal-year 2020 of at least $250 million (at least $500 million in the U.S.).
Qualified participants have a role tied to a supply chain function and are in director or above roles. All respondents are involved in their company’s decisions regarding supply chain management processes, operations and strategies, either in a decision-making capacity or advisor to the decision makers.

The study was developed collaboratively by Gartner Analysts and the Primary Research Team.

Disclaimer: Results of this survey do not represent global findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

Note 1: Representative Vendor Selection
Although there are dozens more providers in the global trade management market that often vary by geography, the vendors selected for this research represent one of the following:

- Solution providers that can deliver a global solution
- Market leaders in terms of size, revenue or market presence measured by marketing materials and Gartner end-user inquiries
- Solution providers that sell to enterprise-level companies

Note 2: Gartner’s Initial Market Coverage
This Market Guide provides Gartner's initial coverage of the market and focuses on the market definition, rationale for the market and market dynamics.

Recommended by the Authors
Ignition Guide to Managing Supplier Risks
Direct Material Sourcing and Supply Chain Services Primer for 2020
2020 Gartner CEO Survey: The Year of Recession
Use Metrics to Assess Supplier Financial Health
Preparing Procurement for the Next Downturn
When and How to Support Suppliers in Financial Distress
Manage Supply Chain Risk of Force Majeure Disruption in Times of Crisis
4 Steps to Draft and Operationalize an Effective Supply Chain Risk Appetite Statement
Use Gartner’s Optimum Risk Utilization Framework to Drive Competitiveness and Improve Agility in Procurement
Thrive in Uncertain Times by Formalizing Risk Appetite and Connecting Business and Procurement Strategies