Supply Chain Goes Full Tilt Into Risk Management

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Initiatives: Sourcing and Procurement; Procurement Management

The 2021 Gartner Supply Chain Risk and Resilience Survey revealed 79% of large organizations leaning into resilience and risk management in two to three years. This research shows supply chain leaders how to balance risk management investments in technology, resources and process reengineering.

Strategic Planning Assumption

By 2025, supply chain risk management will be a key success driver for more than 50% of organizations having a dedicated function with a multimillion dollar budget spearheading the efforts.
Data Insights

A key to sourcing and procurement success is developing capabilities to identify, prioritize, manage, mitigate and monitor supply chain risks on a proactive basis. This ensures compliance, business continuity and resilience against supply-side and service provider disruptions. The 2021 Gartner Supply Chain Risk and Resilience Survey,¹ conducted in partnership with BME (and with participants mainly from central Europe — Germany, Austria and Switzerland), revealed (refer back to Figure 1):

- 79% of respondents at large organizations take lessons from past disruptions and current concerns to change the way they have been conducting their business. They are leaning into resilience and agility to be more proactive and better prepared. Disruptions are becoming part of their value equation of cost to serve rather than an unforeseen risk event.

n = 84 professionals, 44 <500 employees, 39 500+ employees, excludes don't know

Q: Looking ahead two to three years, what is your expectation about supply chain resilience and risk management strategies, capabilities and investments in your organization?

Source: 2021 Gartner Supply Chain Risk and Resilience Survey

¹760312_C
What You Need to Do

In addition to COVID-19, there have been other significant disruptions in the past two years, such as the Suez incident or semiconductor scarcity. These disruptions have reinforced the need for a holistic supply chain risk management strategy that enables organizations to knowingly manage the foreseeable and unforeseeable risk events.

Organizations need to find a way to enable collaboration and effective risk management to deliver business results continuously. This will ultimately impact all organizational delivery and business goals end to end, including product development, planning, logistics, manufacturing and customer satisfaction. To deliver a successful supply chain risk management strategy, supply chain leaders need to work across functions to build a risk management strategy with investments into all catalysts. While it is interchangeable to start with the resources or processes first, it is important that technology follows only once a process is in place. This supports the initial investment to enable a higher efficiency. (See also Market Guide for Supplier Risk Management Solutions.)

Investments that enable better supply chain visibility, information gathering, analytics (including a strong focus on leveraging advanced analytics, predictive and prescriptive) and decision making will be the differentiators of a successful or failed risk management initiative. The fit for purpose process and the risk management skill set will be key to define what really is needed and is most impactful from a technology perspective. A technology decision made too early in the process will likely delay success or, in the worst case, impede it.

By prioritizing processes and people, organizations can already react to risk events, therefore, breaking the paradigm of missing funding for risk management. Regardless of size, well-designed processes and dedicated talent can manage situations that hit organizations unexpectedly. The right mix of technologies will multiply the effectiveness.

Near-Term Actions

Focusing on the current situation, ask yourself and your team:

- 55% of small and midsize businesses (SMBs) anticipate being more proactive and better prepared, which is significantly less than their counterparts.
- 25% of SMEs anticipate making some changes this year but will revert back to more traditional priorities once the crisis event has passed.
- 20% of SMEs expect to continue to operate in “reactive” mode and focus their efforts from disruption to disruption.
Which processes are truly effective in detecting and managing risk events?

What information and data is available, and what is systematically missing?

What governance and compliance structure is effective or ineffective currently?

Do you have a risk appetite statement that supports the current risk posture with key risk indicators?

To what extent are you shifting supply chain staff to support your risk management strategy and incident management today?

Which technologies are available at arm's length, and which technologies will become effectiveness multipliers based on your processes and resources?

Do you have a RACI? What training exercises are in place?

Longer-Term Actions

Focusing on the long term, ask yourself and your team:

What measures of long-term performance would you need to communicate the success or necessary improvements to foundational changes to your organization and investments into processes, resources and technology?

How do you plan to find the talent you will need to support risk management in the near future?

Are policies and procedures periodically reevaluated to ensure that they are fit for purpose and address contemporary circumstances?

Which emerging technologies and technology framework would support your processes and resources thinking about market dynamics of the future?

Three years from now, in what ways will supply chain risk management become your core competency and drive business results, and how will your team and organization look different than it does today?
What You Need to Know

- **Supply chain resilience** is the ability of an organization to avoid, absorb and recover from the business impact of major disruptions through a risk-balanced approach to product, supply chain strategy and network design.

- **Supply chain agility** is the ability to sense and respond to unanticipated changes in demand or supply, quickly and reliably, without sacrificing cost or quality.

Although 60% of companies, regardless of size, are highly concerned about supply shortages of key raw materials and components impacting their businesses going forward, the difference in posture of large enterprises versus SMBs toward risk events could be explained twofold:

1. SMBs are likely to be less affected by the same disruptions as large organizations, which can be explained by their supply chain surface area being smaller and more local (see also *Supply Chain Executive Report: Shaping Supply Chain Disruption in a Volatile Risk Environment*).

2. SMBs often do not have the financial investment capacity, talent and resources to drive a holistic risk management initiative forward in times of rigid cost management and short-termism.

After all, the footprint isn't a resilience strategy that always plays out the same way. Rightsizing the supply chain footprint is critical to enable growth, innovation and purpose-driven profits. Any supply chain setup and surface size will benefit from a holistic risk management approach that balances technology, resource and process reengineering investments. In its core, it maximizes resilience and agility. A burden in allowing this to happen is available cash and resources, a strategic roadmap, and sequenced implementation that doesn't stop midway but is financed and organized through to the end.

Effective risk management is not a guarantee for mitigation. Effective risk management will help to prevent some specific risk events and types that fall into one of four risk categories:

- **Aleatory Risks**: Known in type and impact, specifically those that require certain know-how and can be foreseen
Risk management cannot completely prevent or mitigate all vulnerabilities in either risk category, and even less the unforeseen events with complete lack of insights, the ontological risks. Hence, risk management effectiveness is even more focused on absorption and recovery enhancements and capabilities.

Supply chain risk management is becoming a core competency and budget line item that requires effective investments and holistic management with the potential to impact almost every stakeholder within and outside the supply chain.

Additional effective and distinguished investments include:

- **Resources**: Either as dedicated individuals or fully structured functions and teams with separate reporting lines into leadership or board
- **Reengineered fit-for-purpose processes**: Overhauled processes to adapt to risk management being an organizational and not siloed task; could be initiated, executed and controlled by many parties, depending on risk event type and severity
- **Technology**: Consisting of established and emerging technologies

Survey respondents seem to acknowledge the need for investment into resilience and risk management. They allocate a 30% increase (from 0.5% up to 0.65%) in the share of direct materials costs to spending on supply chain risk management the next 12 months.¹ This increase is sizable, compared to what it was prior to a disruptive event experienced in the past two years. Balancing the funding into the most effective resilience and risk management strategy is pivotal.

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1. Data from a specific survey or study is not provided in the text, but the increase is emphasized as significant.
It is evident that technology by itself is not capable of solving supply chain risk management challenges. The survey found that companies that had implemented technologies prior to disruptive events did not show any significant improvement in their effectiveness of supply chain risk management capabilities. Technology is more an enabler for dedicated resources to work most efficiently with incoming data and distress signals within a purposely designed process.

Many companies struggle with having insights into their supply chain. The 2021 Gartner Supply Chain Risk and Resilience Survey found that visibility improvements was one of the top three most important areas of improvement to supply chain risk management at 70% (and 83% among enterprises that have revenue above 1 billion). Forty percent of respondents mentioned it as the top area of improvement (see Figure 2).

Figure 2: Supply Chain’s Most Important Risk Management Improvement Areas

<table>
<thead>
<tr>
<th>Risk Management Improvement Areas</th>
<th>Sum of Top 3</th>
<th>First Choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Supply Chain Visibility</td>
<td>70%</td>
<td>40%</td>
</tr>
<tr>
<td>Better Supplier Risk Data</td>
<td>63%</td>
<td>19%</td>
</tr>
<tr>
<td>Better Supply Chain Risk Tools/Technologies</td>
<td>57%</td>
<td>11%</td>
</tr>
<tr>
<td>More Clearly Defined Risk Processes and Governance</td>
<td>57%</td>
<td>18%</td>
</tr>
<tr>
<td>More People and Risk Management Skills</td>
<td>39%</td>
<td>11%</td>
</tr>
</tbody>
</table>

n = 89 professionals

Q: What are the most important areas of improvement to supply chain risk management in light of the most significant disruptive event experienced in the past two years?

Source: 2021 Gartner Supply Chain Risk and Resilience Survey
It is important to mention that the top areas requiring improvements are all very tech-related or core technology topics. However, with better processes, governance and human resources at the bottom, we need to consider balancing the investments since we know that technology is an enabler but not the solution.

Evidence

1 2021 Gartner Supply Chain Risk and Resilience Survey: This survey was conducted to understand companies’ current capabilities for supply chain risk management, where improvements are most needed, and where they are investing in processes, resources and technologies for the future. The research was conducted online 19 July through 3 September 2021, among 83 respondents in Germany and 6 in other countries. Gartner partnered with BME to recruit the participants. The sample was augmented with recruitment efforts through social media. Qualifying organizations operate in the manufacturing, healthcare, natural resources, retail, transportation and logistics, utilities, and wholesale trade industries. Qualified participants have a role tied to a supply chain function.

The survey was developed collaboratively by a team of Gartner analysts and BME leadership and was reviewed, tested and administered by Gartner's Research Data and Analytics team.

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

Recommended by the Authors

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Case Study: Resilient End-to-End Supply Chain Risk Management 4.0 Framework (HELLA)

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Tackle Ticking Time Bombs by Managing Supply Risk in Concentrated Markets

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