

The outsourced supply chain

Risks and continuity

David Kaye

FCII FBCI FRSA MIRM

Talk objectives

- Discuss
 - the special exposures within outsourcing
 - critical dependencies that bring both risk and impact surprises
- ‘Suppliers’ embraces entire value chain including distribution chain

The hollow company

- The ingredients?
 - the brand or brands
 - other intellectual assets
 - value chain contracts including ‘front-office’
 - legality and control
 - stakeholder confidence
 - new financial and business expectations

Risk management toolbox

- Reduce the risk to acceptable levels
- reduce the impact to acceptable levels
- transfer the risk and/or impact
- prepare to finance losses
- establish the ability to safely respond
- *or most likely* a combination of the above...

Core messages

- New business model dependencies
 - Huge power and size
 - much less power to micro-manage
 - new stakeholder powers
 - tight margins and urgencies
- however large and multinational; much more likely to be at risk of total failure

The value chain dimensions

- The supplier as an urgent critical deliverer
- the supplier as a crucial stakeholder
- the supplier in crisis?
- the principal in crisis - supplier reaction?
- workforce control and flexibility

Handed over?

- Ability to control and to deliver volumes and quality to market on time:
 - Database and other intellectual assets?
 - Brand and reputation?
 - risk management processes?
 - Hardware and software?
 - Ability to communicate? Macro and micro?
 - Legality and compliance?
 - People; both numbers and skills?
 - workstations and factory machinery?
 - Information security

Intellectual assets

- Brand values
 - softwares
 - employee skills
 - paper files
 - legality
 - research
 - market position
 - wide stakeholder confidence
- databases
 - employee intellect
 - licenses
 - regulatory approvals
 - domain names
 - patents
 - competitor gap

Legality

- Jurisdictions along whole value chain
- Regulators demand continuing control
 - normally
 - during a crisis
 - audit trail a crucial dependency
- legality requirements: products to people to environment
- supplier/delivery chain contract wordings

International surprises

- *‘America, of all the ninety countries that I have worked in, it seemed to me, with the possible exception of equatorial New Guinea, was the most Alien’.*
- Martin Bell

The supply chain project

- Where risk management starts
- project objectives and risk tolerances
- scope, quality, time, cost, security
- Who owns the organisation wide project risks?

Governance authorities

- Not only Monetary limits plus impact or change to:
 - **Branding or reputation**
 - **legality, governance, insurance, health and safety**
 - **new territory or new product or service**
 - **impact another division**
 - **the confidence of employees and other stakeholders**
 - **attract significant or negative media interest**
 - **significantly changes the financial gearing of the division**
 - **that could change the risk or continuity profile**
- **Proposals for supply or delivery of goods or services must have statement of risks and pricing of these risks**

Project due diligence

- Legality; all jurisdictions
- financial
- operational
- quality assurance
- subjective

Volume, Speed, Specification and Quality

The contract

- Service levels in good times
- contingency service levels in bad times
- oversight control including access
- risk management standards including protection or duplication and retrieval of data and other assets
- ability to Police

Relationship management

- PAS 11000 Collaborative Business Relationships
- PAS99:2006 Integration of Management system requirements
- Cultures and the human touch
- It's too late when you need the contract clauses

Exit strategy and pre-nuptials

- Suppliers and client responsibilities during exit
- Replacing the ability to deliver
- interim services and timetables
- knowledge transfer and employee implications
- legal ownership and access to intellectual assets including softwares, audit trails, source codes, records, licences, databases and other.
- third part agreements
- protection of brand and reputation
- security
- Data Protection Act registration and other compliance requirements

Risk managing the supply chain

- Pricing of alternatives
- Starts with project objectives and risk tolerances
- Pre agree BIA, relationships and governance
- barriers to consistency though the chain
- the supplier's supplier's supplier
- information feeds for reporting purposes

bottom line is you are still on your own.

Suppliers plans

- plans interfaces, communications, ownership and responsibilities
- whom do their plans protect?
- special challenges of managing business change
- BSI 25999 box ticked;
 - what if they lied or spun - or simply failed?
- media and product recalls

BCM outcomes (BSI25999)

- Key products and services identified and protected
- incident management capability
- organisations understands itself and its relationships
- staff trained
- stakeholder requirements understood
- adequate staff communications and support
- supply chain secured
- reputation protected
- legal and regulatory compliance

Media attack: more targets

- Capita targeted February 2007 for letter bombs
- Telegraph report embraces:
 - “hundreds of complaints when they ran the Lambeth housing benefit system”
 - Education Minister ‘deeply dissatisfied when they failed to check all school staff by start of 2002 school year’
 - alleged misuse: individual learning accounts spend of £265million
 - whilst valued at £2.9 billion dubbed by opponents as ‘Crapita’.
 - accused ‘bidding low’ to secure contracts then going over budget
 - UK criminal records bureau delayed ‘badly’ by Capita”
- Who responds; To what agenda?

Exercise the supply chain

- Who is being exercised?
 - us?
 - them?
 - both?
- Real exercise or a pretend one?
- Exercise residual risks?
- Exercises embrace total loss of supplier?

Summary

- Outsourcing so much more than subcontracting
- wide arena relationship management
- prevention v cure equation must be different
- supplier will always retain own objectives
- who's problem is it?
- plan interfaces

Time up!

David Kaye

FCII FBCI FRSA MIRM

Springfields, Down Hatherley
Gloucestershire UK GL2 9PY

(0)1452 730117

davidjkaye@aol.com

