

# It's More Than *Mother Nature*



You may not be able to avoid every pitfall,  
but by being vigilant and prepared,  
you can mitigate the damage

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By Barry Hochfelder

**T**he first thought that comes to mind when someone mentions supply chain risk often is the vision of natural disasters like tsunamis, earthquakes and the like. But those who live supply chain every day know better. In this piece, we look at some of the other issues important to risk management and how to make sure your supply chain keeps flowing with minimal disruption.

## **Flexibility and Agility**

In its 2013 Global Supply Chain Survey, PricewaterhouseCoopers (PwC) noted, “Supply chain performance will depend on the ability to respond quickly to changes in demand and supply through the ups and downs of business cycles, as well as during crises. Flexibility will continue to grow in importance with the rise of emerging markets and a proliferation of new products.”

The survey suggests that companies use technology to make supply chains more transparent and efficient by segmenting supply chains, partnering more closely with vendors and increasing risk management.

Take, for example, MWI Veterinary Supply, a \$3 billion Idaho-based pharmaceutical company that spe-

cializes in veterinary medicine. Now, imagine a country vet making rounds at farms in a small section of Wyoming. The veterinarian uses a mobile device to enter what is needed, so upon returning to the office, it's there.

"The vet knows his geography, knows his horse and dog population, and what his expected needs are from past orders," says Doug Braun, CEO of IBS. "That can be integrated into an enterprise resource planning (ERP) system. It can change order patterns automatically and pass visibility up to the web portal so suppliers can see it. A lot of automatically connected supply chain pieces help this company. It grew up serving rural vets, but expanded in size and scope, and needed tools for visibility from consumers to suppliers."

One way for supply chain professionals to get better visibility is through better connectivity. "What supply chain isn't thinking about yet, but retail is preaching, is omni-channel," says Linda Taddonio, e-commerce strategy officer at Insite Software. "Everything is connected, nothing is siloed. You can see the same information, interact and get the same results."

It's not easy, she adds. e-Commerce is changing everything. "Some organizations are paralyzed by it. Transformation is a big word; innovation is a big word. They need to innovate and adjust to what the digital world is hurling at them."

### Shame to the Name

Safeguarding your brand is something that companies must be concerned about, not only in the eyes of the consumer, but also those of the vendor. It can happen in many ways: Intellectual property (IP) theft, counterfeiting and product diversion can wreak havoc in the supply chain, and to the brand and bottom line.

How does product diversion work? Listen to Keith Cutri, Kodak's director of business development for packaging and brand management services, and a former Federal Bureau of Investigation (FBI) agent with vast experience in corporate security and brand protection in the private sector:

"First and foremost, diversion creates opportunity for counterfeiters to introduce knock-off products to unsuspecting authorized distributors



who believe they are acquiring diverted goods at lower costs," Cutri says. "The counterfeit goods go undetected, and end up being distributed to authorized retailers and downstream resellers, ultimately being purchased by end users and consumers around the world."

Next thing you know, there is customer dissatisfaction with inferior goods, health and safety concerns, reduction in brand loyalty, loss of market share, decline in revenue and potential legal liability.

"Brand owners can mitigate the risk of counterfeiting and diversion through a comprehensive end-to-end brand protection program," Cutri advises. "This includes the deployment of overt and covert countermeasures on packaging, labels and products, which allow for ease of authentication in the channels, and cost-effective investigation and enforcement. The program should also include mass serialization coupled with global monitoring through brand loyalty campaigns targeted toward distributors, retailers, end users and consumers."

He adds, "Brand owners who stick their heads in the sand and ignore

the marketplace risks will fall behind their competitors who are proactive in their brand-protection efforts."

Bruce Williams, vice president, business line leader, manufacturing, Pegasystems, agrees, "We see two kinds of things, one is that the brand is denigrated in the eyes of the customer. They look at it with a more wary eye, and it results in lost sales because they moved on to a different vendor because they lost trust. Second is a quality issue. Lower quality products have less reliability, or perhaps one part of your supply chain got you into legal or regulatory trouble. The customer is not comfortable sourcing to you."

### Protecting Your IP

IP is so important that the FBI focuses on it, specifically on the theft of trade secrets and infringements on products that can impact consumers' health and safety, such as counterfeit car and electronic parts, and even cosmetics. According to the bureau, it is currently pursuing 400 cases.

"We're a globally interconnected environment," says Steve Durbin, the global vice president at Information Security Forum. "Often we don't know who our Tier 2, 3 and 4 suppliers are. The supply chain is not straightforward, including the role accountants and legal advisers have. How do we validate the integrity of security across the supply chain?"

Every industry is affected by IP theft. "Look at health care," Durbin says. "Companies spend a huge amount of time in research and development (R&D) producing the proper recipe. Until they patent it, the loss can be catastrophic if it's stolen. One pharma company discovered there was a [version] of its drug on the street, at a lower price point, before its release. The challenge is that organizations don't know until they see it in the

market. Then there's a drawn-out process to prove it. It destroys trust."

Electronic products are highly susceptible to IP theft and counterfeiting. One way to deal with it is, don't let the left hand know what the right is doing.

"A lot of companies I talk with break up their assemblies into non-recognizable bits," says Steve Chalgren, vice president of product management and strategy at Arena Exchange. "Each vendor doesn't know what the product is. Suppliers have no IP, just little pieces. You see that in things like phones that are competitive. People writing code only have a board. No one in developing could leak it out, so every little feature differentiation counts."

Tom Pettit, senior vice president and general manager of global supply chain solutions for Ryder, has another type of theft in mind: high-jacking of vehicles. A trailer filled with electronic compo-

nents can be worth tens of millions of dollars. Ryder operates a lot of trucks in Mexico—9,000 border crossings a day—and high-jacking is a problem.

"We have certain routes our folks travel at certain hours. They have on-board tracking so, if the truck leaves the route, we know. There's a geo-fence and we get constant updates. The driver has certain codes to transmit if in trouble, and there also are tracking devices in the trailer and certain pallets. Sometimes they swap the pallets into another trailer, so we can still track them."

Pettit says Ryder works with Mexican police, private security, and U.S. and Mexican Federal police when an incident occurs.

### The Role of Technology

While former Speaker of the House Tip O'Neill said that all politics are local, it's just the opposite in the business world, which is global now. And that, says Thomas Halliday, general

manager of AEB Pacific, means collaboration, integration and flexibility.

"It's all about preparation," Halliday says. "IT plays a big role. In 2011, Lenovo lost 20 percent of its hard-drive capacity in Thailand. Since then, they improved and changed their manufacturing plan."

Halliday suggests establishing a risk model and updating it yearly. Look at your risk exposure and the maximum financial impact to your supply chain.

Companies have standards for suppliers, but without the necessary visibility, they're at risk. Aaron Rudd, vice president of product development at Browz, says a utility company found its supply chain was less than 3 percent compliant with the insurance and metrics it wanted suppliers to meet. After communicating expectations, the level rose to 70 percent.

There's risk in every element of the supply chain.

Are you prepared? ■

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