Assessing and Mitigating the Supply Risks

Presentation to ISM Hispanic Supply Management Summit

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A.T. KEARNEY

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- The Supply Risk Challenge
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- Assessing the Exposure
- Managing the Risks

The Supply Risk Challenge

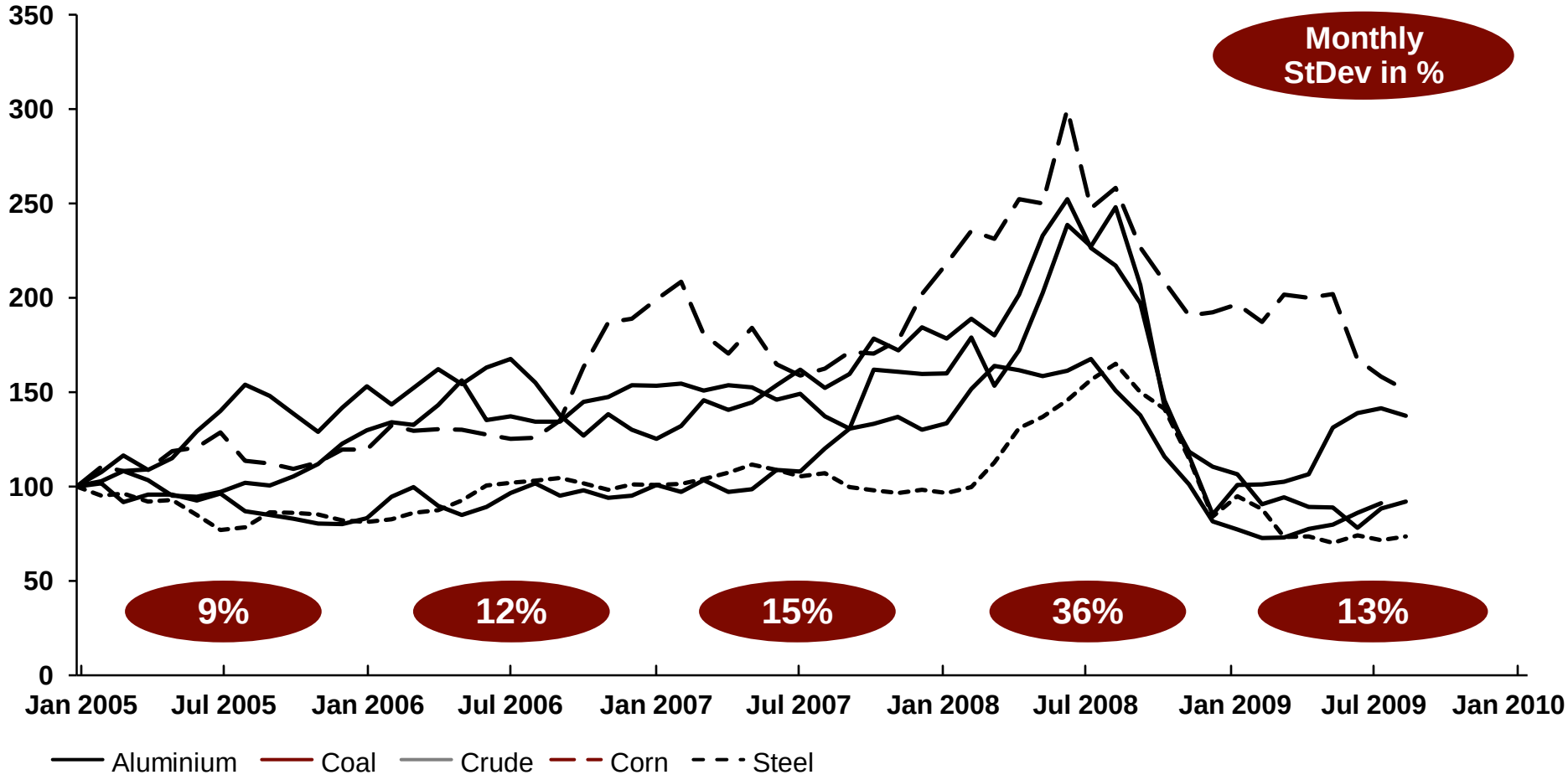
New drivers and uncertainties will strongly impact future commodity markets underpinning the need for risk mgmt.

Drivers and uncertainties

(1) Economic Intelligence Unit Study;
(2) Global Business Policy Council;
(3) CAPS Research
Source: A.T. Kearney AEP Study

Price volatility has increased in the last years reaching in some periods very high specific levels

Commodity price evolution since January 2005



Note: Volatility defined as average Standard Deviation across the individual raw material prices included in graph, based on monthly figures
Source: Bloomberg, A.T. Kearney analysis

Supply risks can have a material impact on business results

Supply risk types

Risks	Description
Supply continuity disruption	• Inability to obtain a key procured input for a significant period of time
Quality or safety compromised	• Procured input not meeting specified quality or safety standards
Reputation tarnished	• Reputation changed due to association with supplier(s) whose behavior is inconsistent with corporate values
Intellectual property revealed	• Confidentiality of company's sensitive information is violated due to association with a certain supplier(s)
Input price Volatility	• Material and unexpected change in input pricing due to market fluctuations

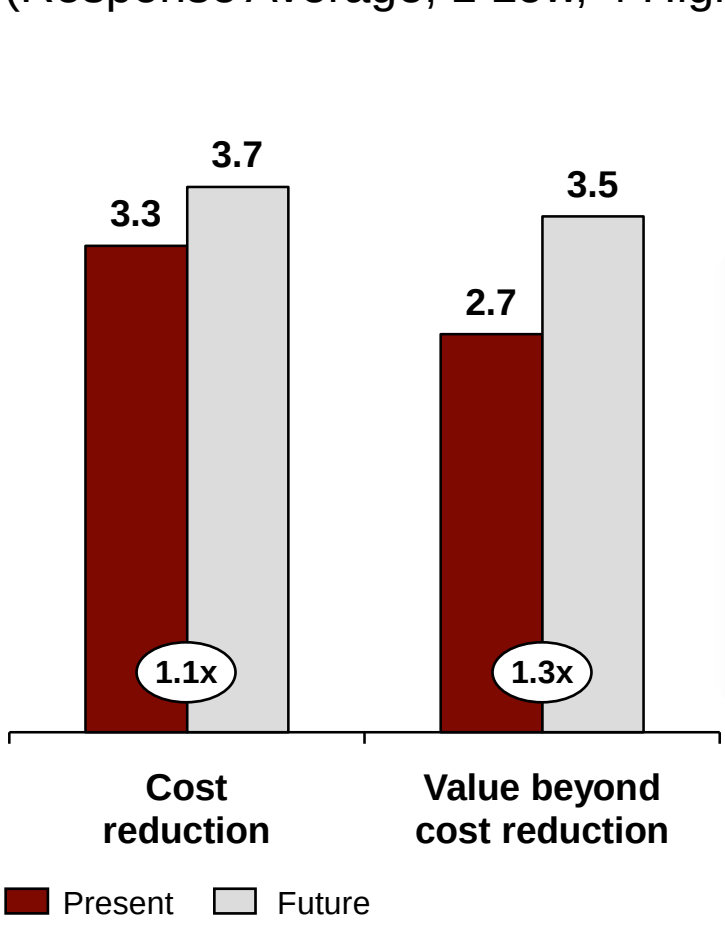
Financial impact

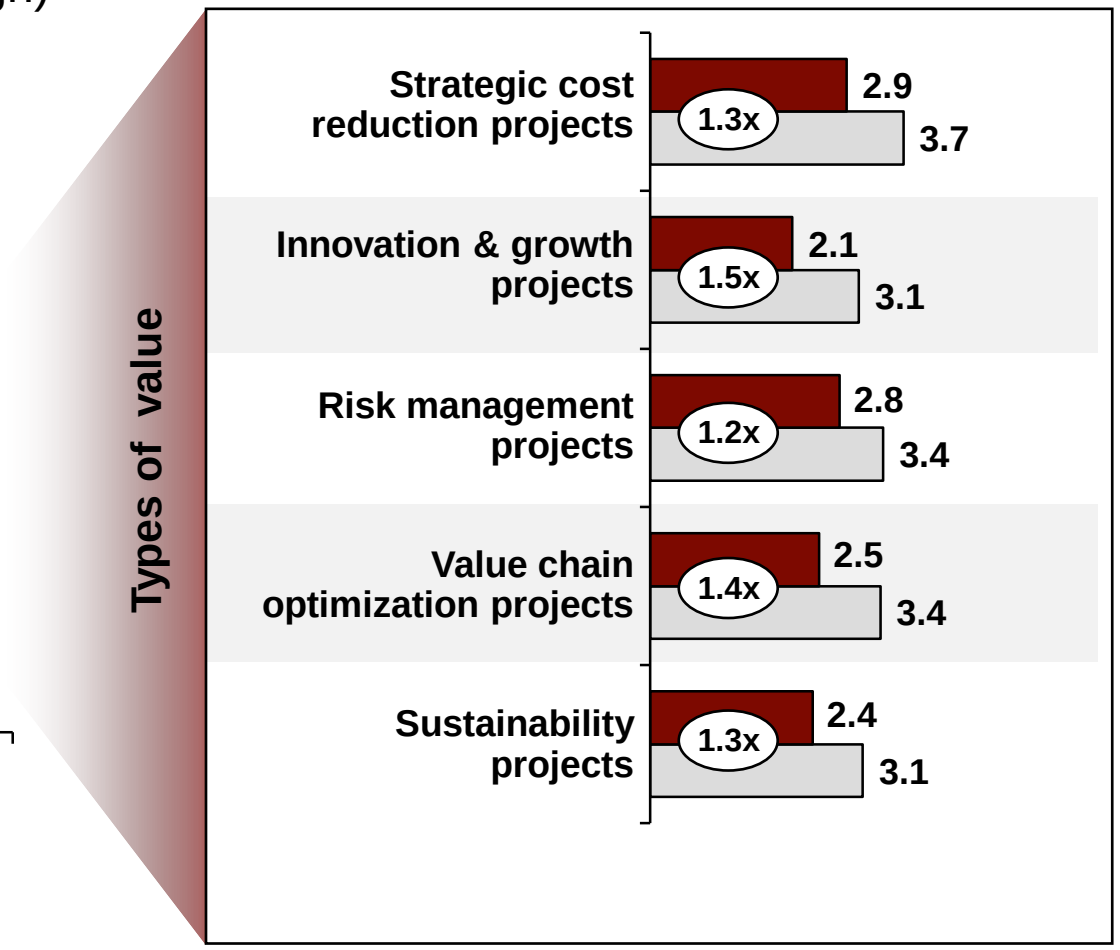
- **Lost Revenue**
- **Increased Cost**
- **Asset Loss**
- **Decreased Market Value**

Chief Executive View—Procurement's importance is increasing, requiring continued improvement in costs and value beyond cost

CEO expectations of the procurement organization

(Response Average; 1 Low, 4 High)

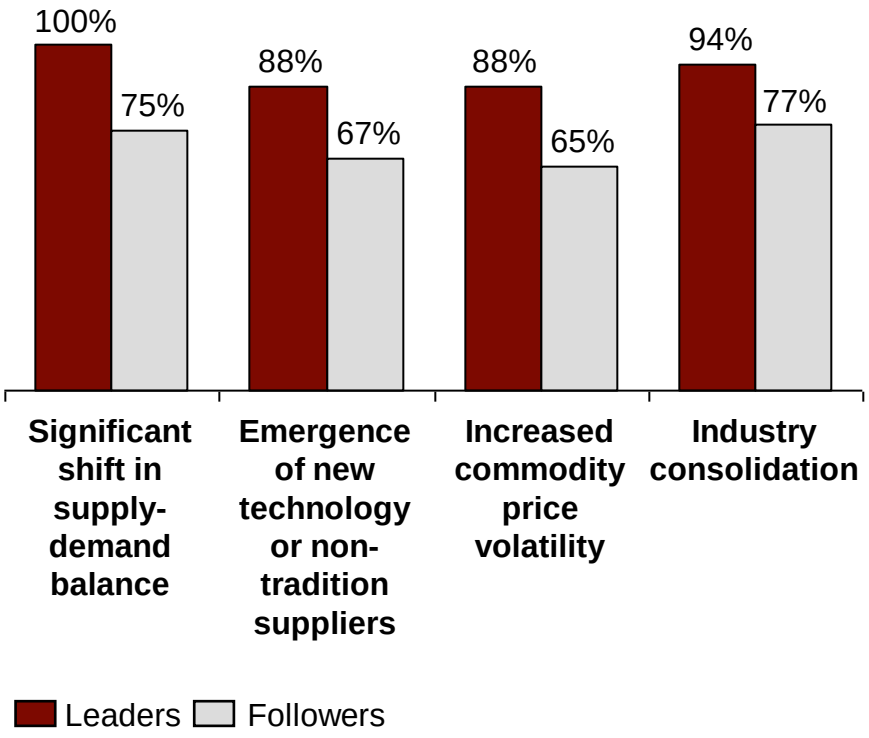




Source: AEP CEO Survey

Leaders are more proactive in scanning for market disruptions

External market risks
(% Companies selecting 'agree' & 'strongly agree')



Risk management strategies
(Leaders selecting 'systematically used')

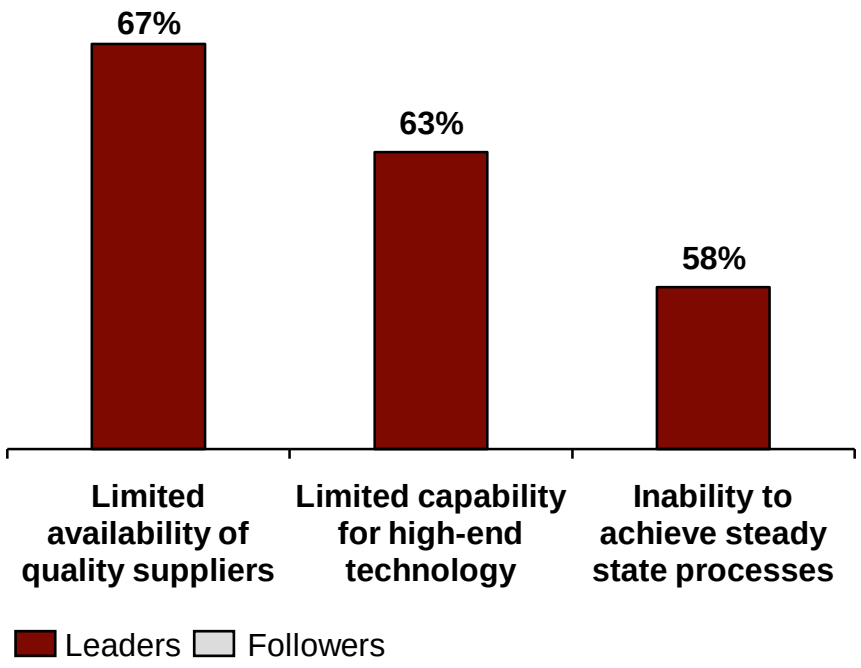
	Degree of usage
Supply guarantee	●
Hedging strategies	●
Disaster planning	◕
Continuous risk monitoring	◕
Mega-trend analysis	◑

Low ○ High ●

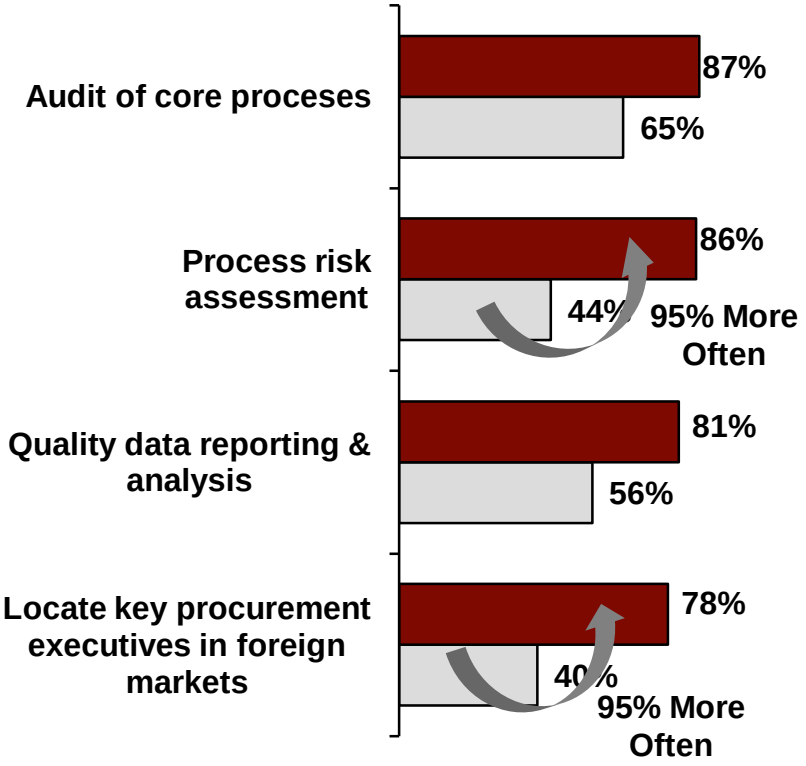
Source: A.T. Kearney AEP study

Leaders use several approaches to manage risks from emerging market suppliers

Supplier capability risks limiting emerging market sourcing
(% Companies selecting 'some', 'major' or 'precludes')



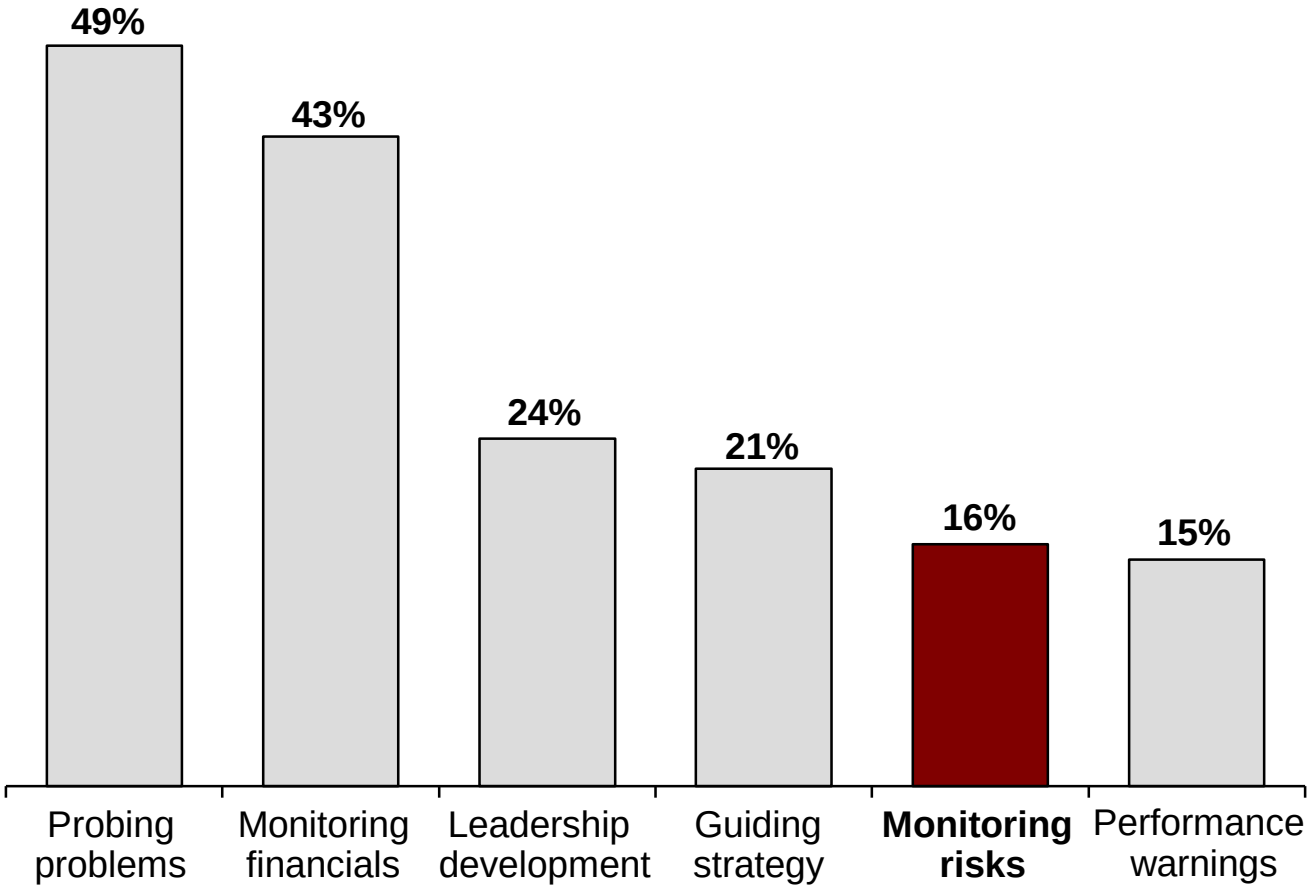
Emerging market supplier management
(% Companies selecting 'systematically used' and 'all suppliers')

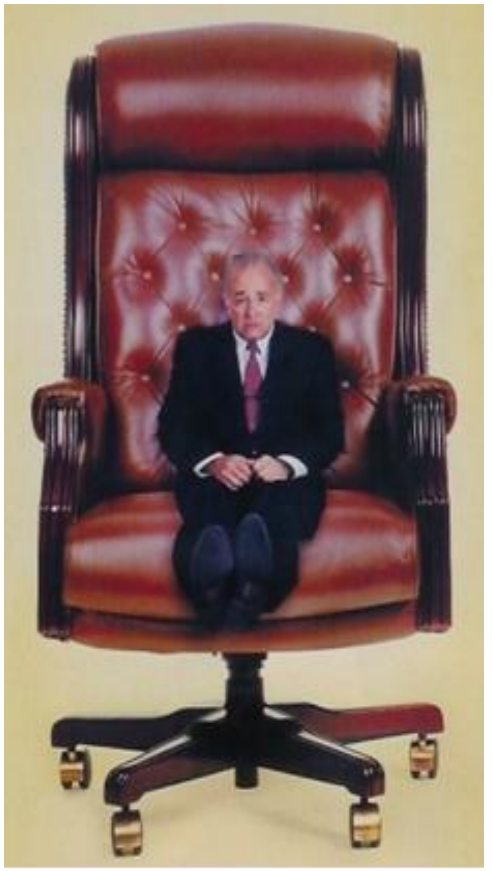


Source: A.T. Kearney AEP study

Corporations have reported difficulty in monitoring and managing risk

Percent of S&P 500 directors who rate their leadership as "very effective" at:





Source: A.T. Kearney analysis

A potential reason is that there are a lot of misbeliefs around commodities and risk management

Non-exhaustive

Common misbeliefs…	…and corresponding truths
"You can´t beat the market, so just index your prices in your contracts"	• Substantial **savings can be achieved through dynamic contracting** by varying contract timing, duration and index according to market situation
"There is no way that we can forecast the future price development of the commodity markets"	• Often true; however the name of the game is to **understand market drivers and trends** and to take the right positions
"We are hit equally as our competitors"	• A company that understands and **acts upon its supply risk exposure will gain competitive advantage**, as it understands underlying costs, limits the price exposure etc.
"*Our company's policy is not to employ financial instruments as we don´t want to speculate"*	• Each supply or sell-side contract has impact on the company´s commodity and therefore risk position; **the size of the open position determines the level of risk and speculation**
"Security of supply is our priority, therefore there is no place for contracting tactically"	• **Security of supply is an integral part of Commodity Risk Management**. A strategic view on commodities will enable companies to take the appropriate decisions

Source: A.T. Kearney

A Proposed Approach to Supply Risk Management

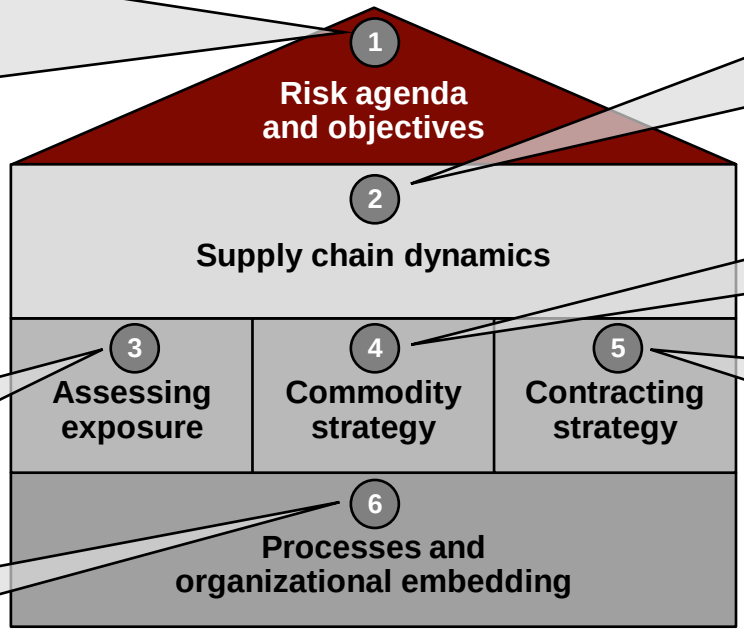
The A.T. Kearney Supply Risk Management approach involves six elements

Elements of the A.T. Kearney approach to supply risk management

- **Define the risk agenda and objectives**
  - Risk agenda: What are the risk to be considered e.g. Event based, Supplier consolidation, Price risks, etc…
  - **Risk management objectives**: What do the clients want to achieve, e.g. budget compliance, beat the market, etc.…?

- **Assess exposure** by determining impact and probability of occurrence

- **Implement process and organizational set-up** to manage risk



- **Gather supply market and supply chain dynamics information**; this will be the starting point for defining applicable risk management levers

- **Determine commodity strategy** by understanding exposure to raw material price variations

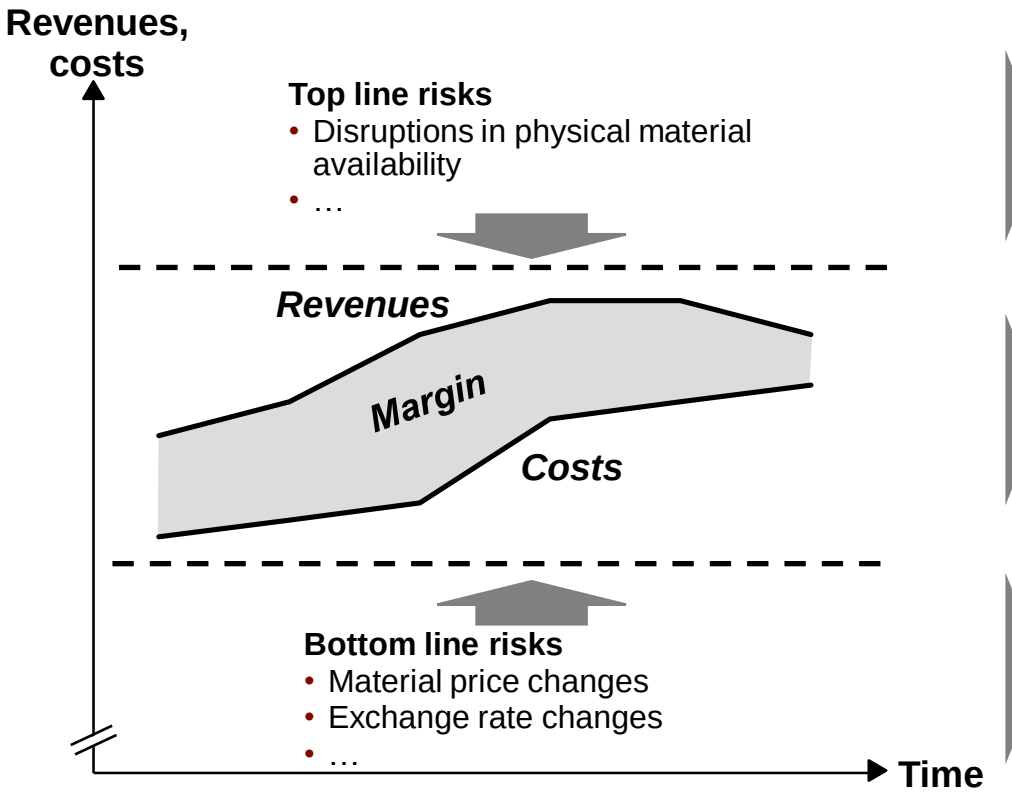
- **Define contracting strategies** to manage residual risk

All elements have been used successfully in various combinations in projects in the last 3 years

Source: A.T. Kearney

1 Setting the risk agenda and objectives is the foundation for a company´s future supply risk management

Setting the risk agenda and objectives



- **Minimize top line risks – secure supply** (Disadvantage: Potentially high costs)
- **Cover customer contracts** (Disadvantage: No comparative advantage, lack of alignment with financial plan)

- **Maximize the margin – beat the market** (Disadvantage: Potentially high residual risk if not hedged and not aligned with financial plan)

- **Minimize bottom line risks – ensure budget compliance** (Disadvantage: No comparative advantage)

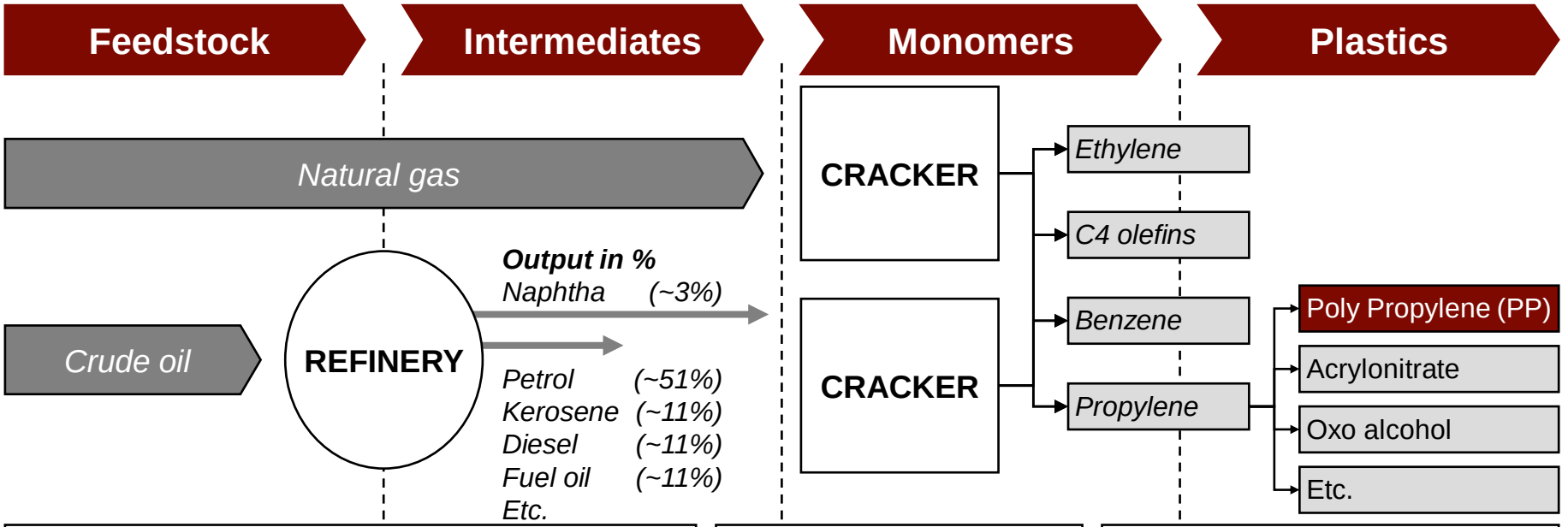
The risk agenda and objectives result from a company´s risk appetite and risk bearing ability

Source: A.T. Kearney

2 Understanding supply chain dynamics will be key for deriving the right risk and hence commodity strategy

Value chain modeling

Example - Plastics



Refineries fine-tune the production depending on the supply/ demand situation for the downstream producers in order to maximize profit

The Crackers are also fine-tuned depending on the supply/ demand balance of the downstream products

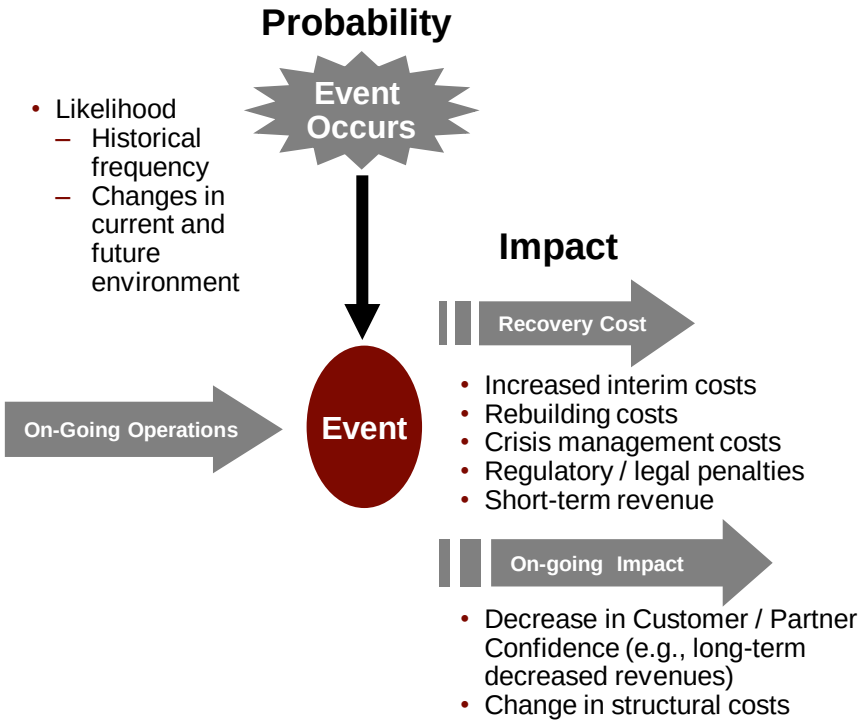
The feedstock cost for polypropylene will depend on the supply of propylene and the combined demand for propylene downstream producers

Prices between related intermediates and monomers are interlinked since the players fine-tune their production in response to the supply/ demand shifts

3 Total impact and probability must be understood in order to assess the risk exposure

Risk exposure

Impact X Probability = Risk Exposure



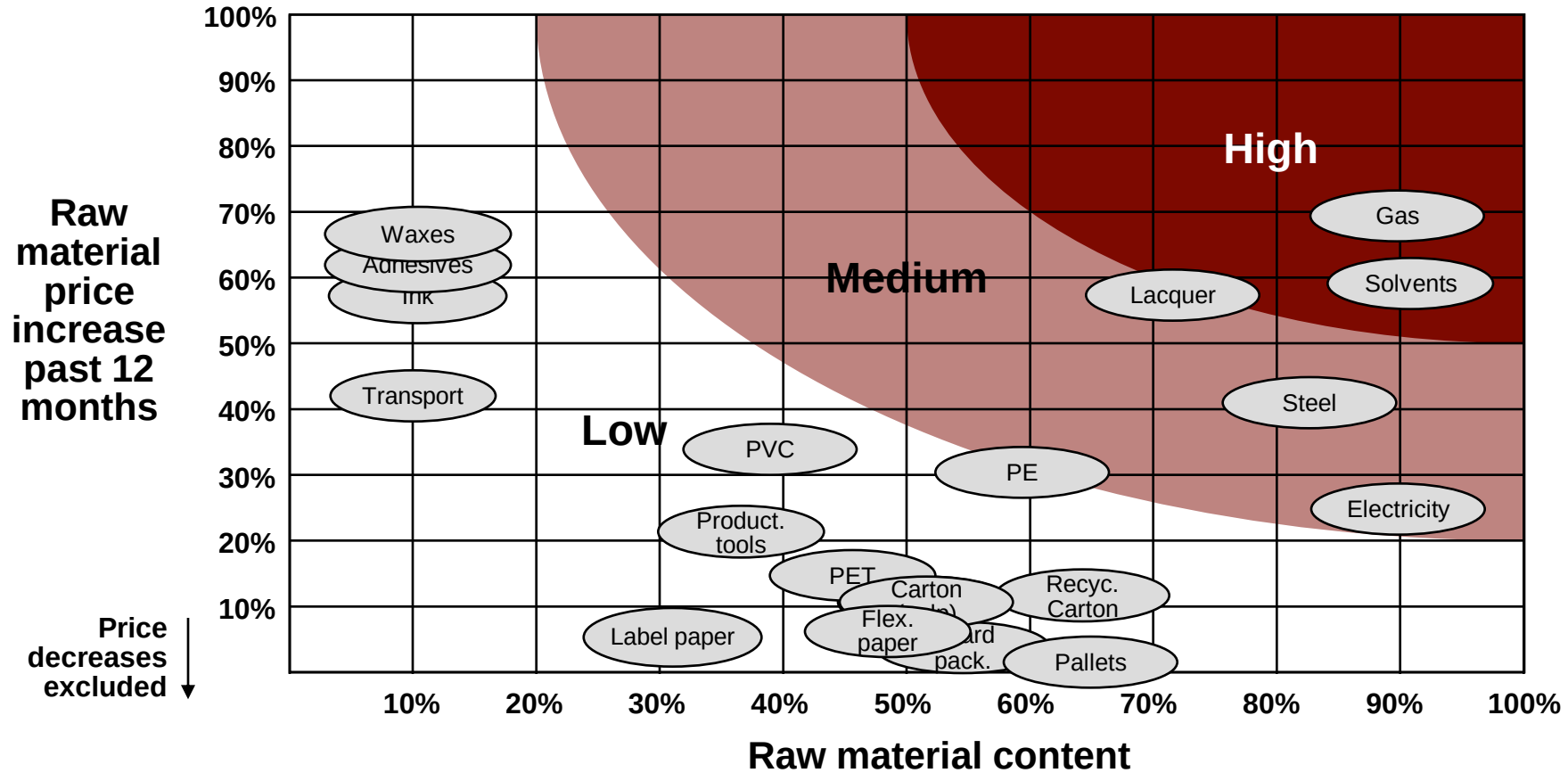
Definitions

- **Risk exposure** – The quantified measure of risk for any single event. Risk exposure is calculated using impact x probability
- **Risk impact** – The total financial impact to the business if an event occurs. Risk impact includes Recovery Costs and On-going Impact
  - **Recovery costs** – Total costs incurred to resume ongoing operations. Recovery costs are resources that would not otherwise be consumed if the event did not occur
  - **On-going impact** – The total financial implication to the ongoing business as a result of the event. Business impact can include opportunity costs (e.g., missed contribution margin).
- **Risk probability** – Likelihood that an event will occur within a specific timeframe

4 "Critical", high impact commodities are identified by raw material content and recent price increases

Exposure to raw material price increases – critical commodities

Illustrative



The raw material content of intermediate products needs to be included

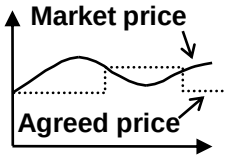
5 Residual risk is managed within the boundaries of the risk objectives/limits with a consistent hedging strategy

Management of residual risk – elements of contract set-up

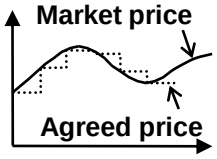
Non-exhaustive

Contract duration

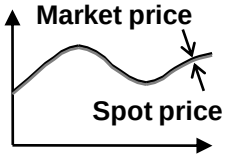
Fixed
(long-term:
≥1 year)



Fixed
(short-term:
~3 months)

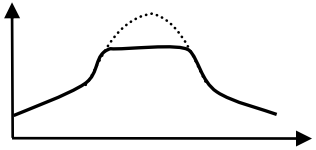


Variable
(spot price)

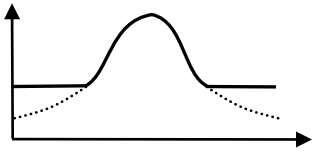


Price set-up

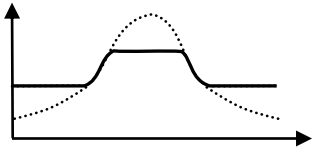
Cap



Floor



Collar



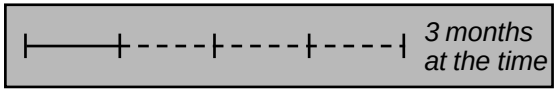
Separation of volume and price timing

Volume agreement

Price agreement

Volume agreement

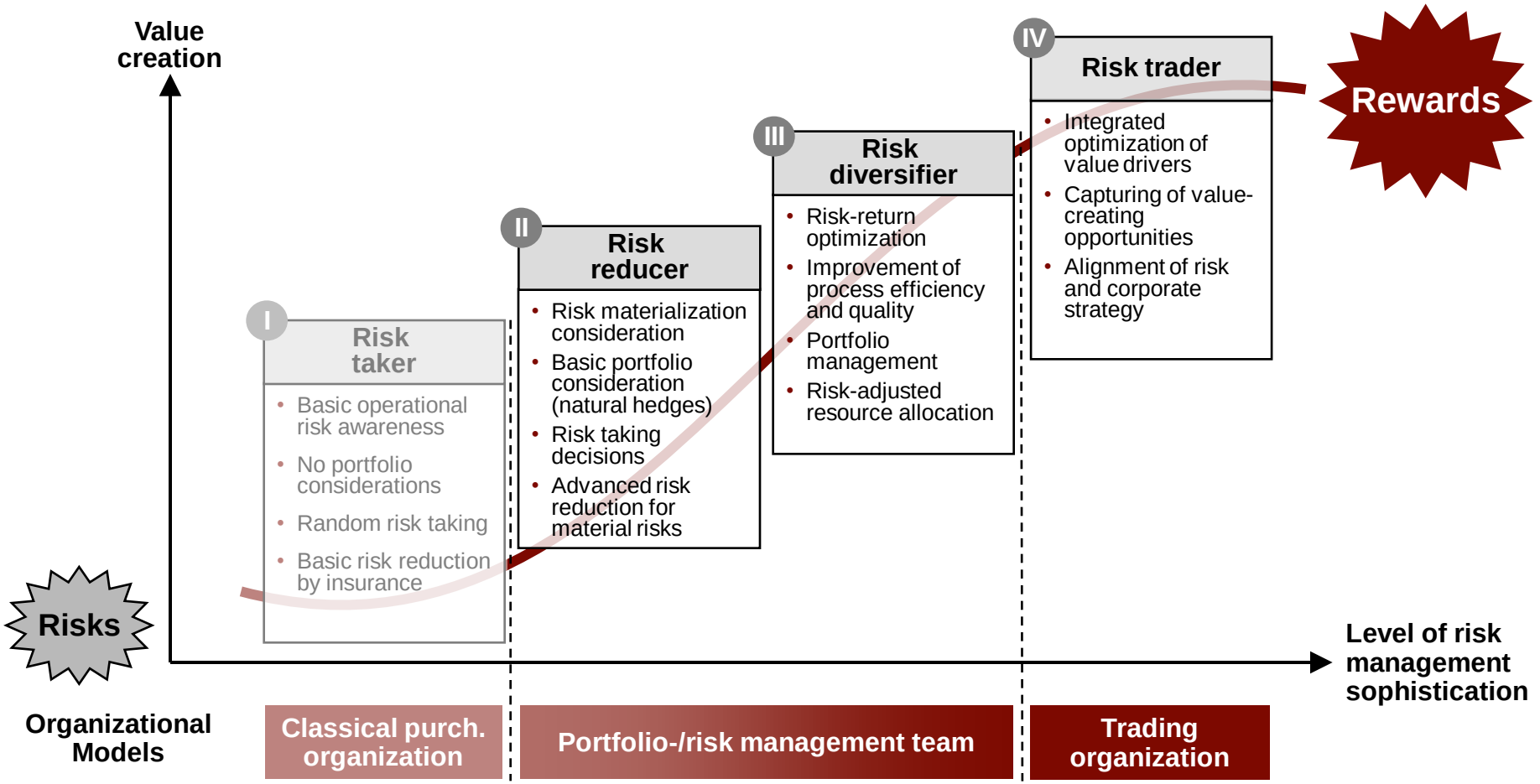
Price agreement



To neutralize commodity risks, sales contracts should get aligned with the set up of the purchasing agreements

6 The operating model and organization depends on the risk management sophistication to be achieved

Risk management sophistication and organizational models



Source: A.T. Kearney

However harvesting the benefits of improved Supply Risk Management is challenging

Requirements and benefits of state-of-the art supply risk management

- Requires a different mind-set (Change management required)
- Requires new organizational structures/initiatives
- Requires new data and approaches/systems
- Requires strategic commitment of top management
- **But…..**

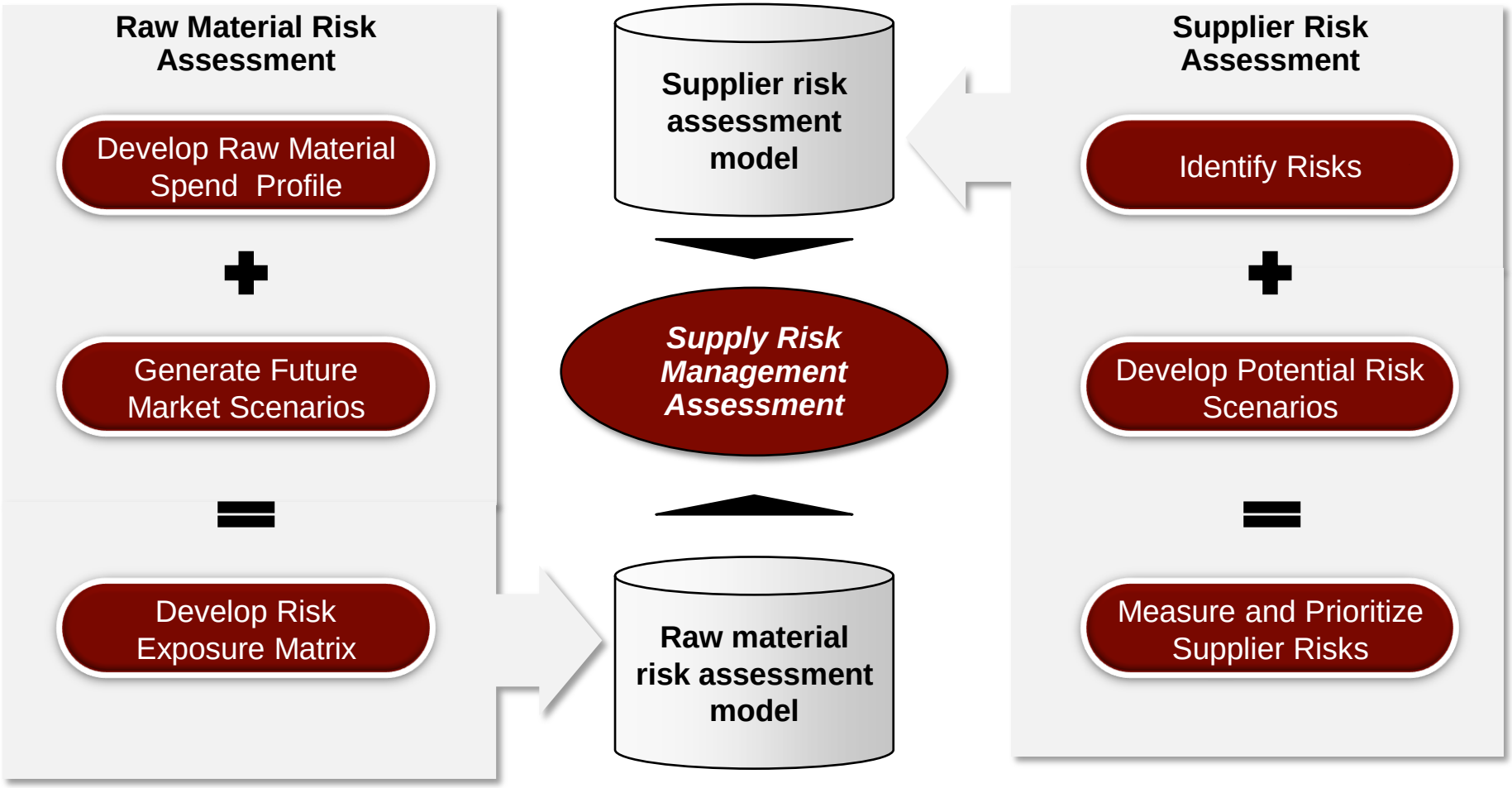
…delivers competitive advantages and positive P/L impact between 3-10% p. a. of purchasing value and in addition risk insurance for the company

Source: A.T. Kearney

Assessing the Exposure

Assessing risk exposure involves developing an understanding of both raw material and supplier risk

Risk Assessment Process



Raw material risks are assessed by gaining understanding of commodity costs and potential future market scenarios

Raw Material Risk Assessment Approach

1. Develop Raw Material Spend Profile

- Develop raw material share of total spend
- Assess contracts and price compensation mechanisms already in place

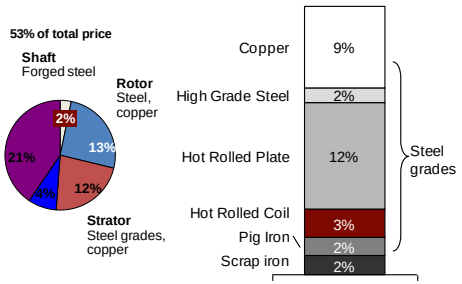
2. Generate Future Market Scenarios

- Employ historic market data, volatility figures and forecasts to generate potential future market scenarios

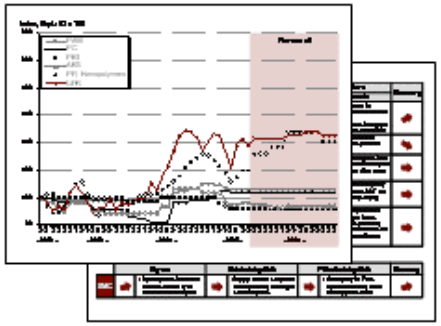
3. Develop Risk Exposure Matrix

- Combine understanding of cost components and potential scenarios to develop risk exposure matrix

Raw Material Cost Break Down



Market Scenarios



Risk Exposure Matrix

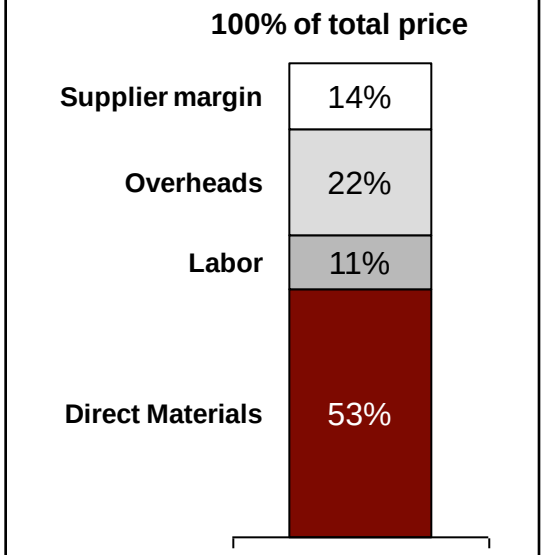
	Scenario 1 Price Decrease (High)	Scenario 2 Price Decrease (Moderate)	Scenario 3 No Change	Scenario 4 Price Increase (Moderate)	Scenario 5 Price Increase (High)
Aluminum	-25% $0.75	-5% $0.95	0% $1.00	6% $1.06	56% $1.56
Lead	-14% $0.86	-4% $0.96	0% $1.00	8% $1.08	28% $1.28
Copper	-22% $2.34	-9% $2.73	0% $3.00	7% $3.21	30% $3.90
Tin	-20% $6.40	-8% $7.36	0% $8.00	10% $8.80	60% $12.80
Nickel	-27% $7.30	-8% $9.20	0% $10.00	11% $11.10	35% $13.50
Molybdenum	-30% $14.00	-15% $17.00	0% $20.00	12% $22.40	45% $29.00
Cobalt	-20% $24.00	-4% $28.80	0% $30.00	12% $33.60	51% $45.30

1. Raw material costs can be derived by breaking direct materials into their component costs

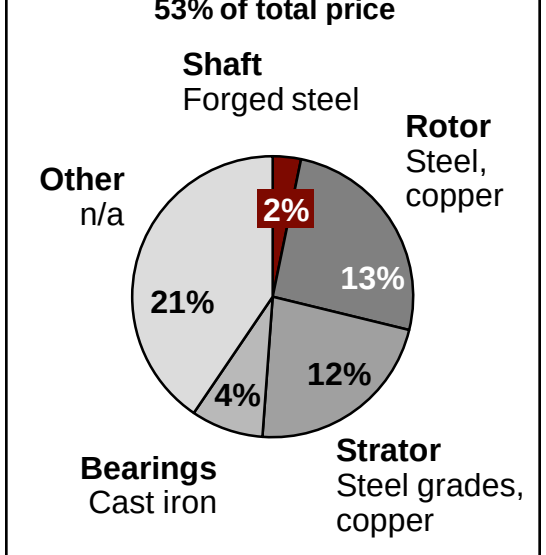
Typical generator components by share of total value (%)

Illustrative Example

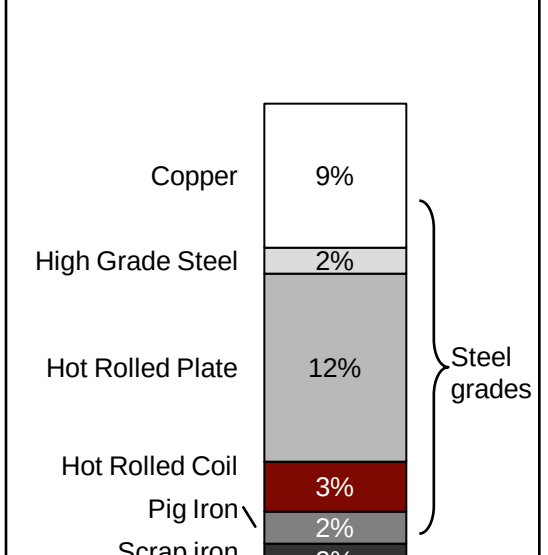
Client generator price break down



Direct material by component



Raw material type break down



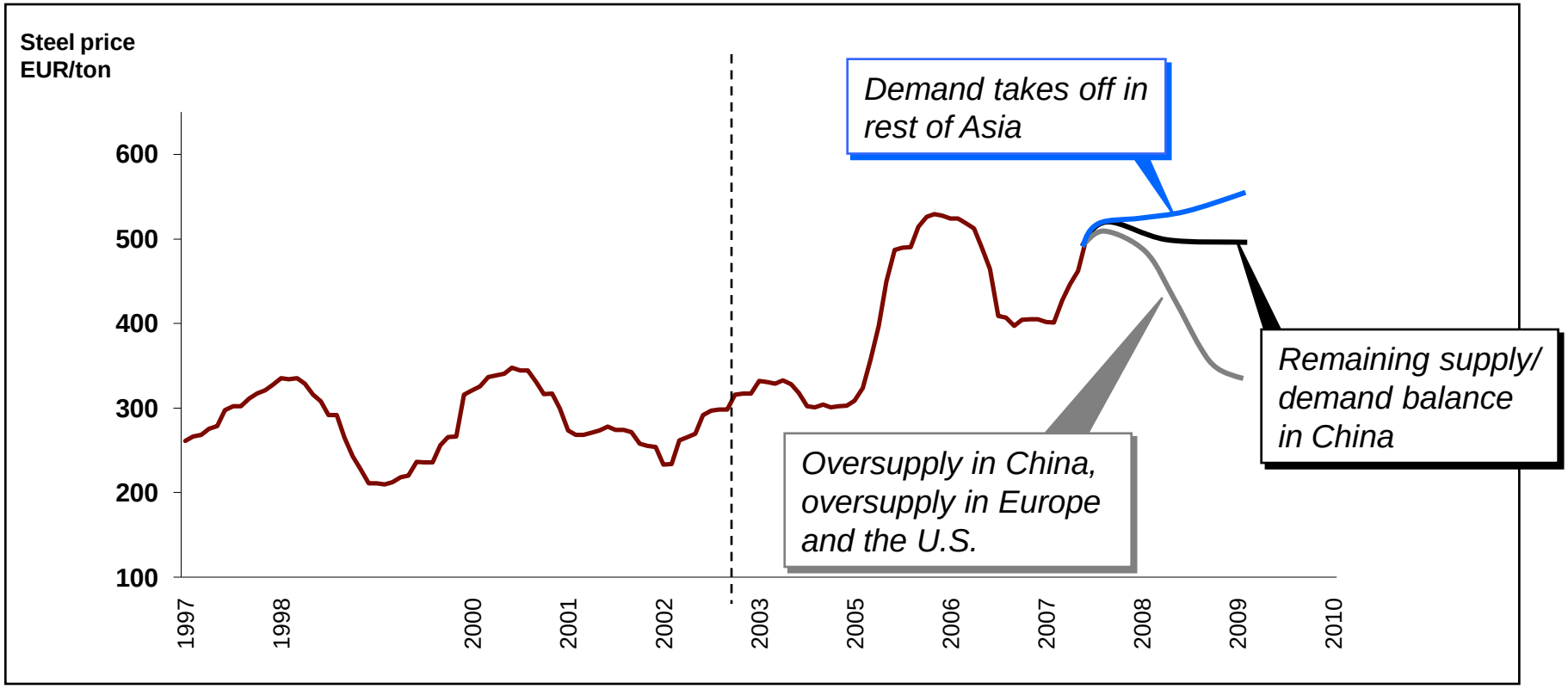
The development of steel and copper will define the development of ~30% of the cost of a generator

Sources: [Client] Interviews; A.T. Kearney analysis

2. Scenarios are developed based on potential market variations

Steel price forecast 2004–2010, (European Hot rolled coils)

Illustrative Example



3. A risk exposure matrix can then be generated that quantifies the total costs of various future scenarios

Risk exposure matrix (Heat map) and Total cost effect

Illustrative Example

	Scenario 1 Price Decrease (High)	Scenario 2 Price Decrease (Moderate)	Scenario 3 No Change	Scenario 4 Price Increase (Moderate)	Scenario 5 Price Increase (High)
Aluminum	-25% $0.75	-5% $0.95	0% $1.00	6% $1.06	56% $1.56
Lead	-14% $0.86	-4% $0.96	0% $1.00	8% $1.08	28% $1.28
Copper	-22% $2.34	-9% $2.73	0% $3.00	7% $3.21	30% $3.90
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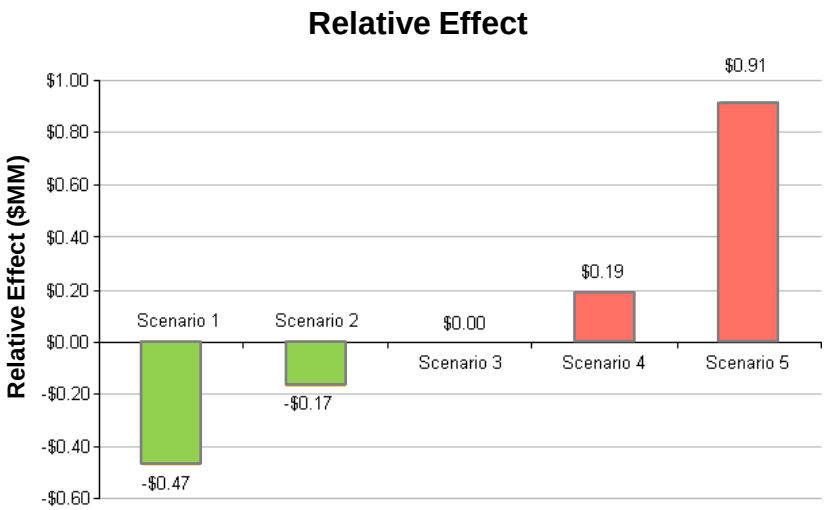
Cobalt	-20% $24.00	-4% $28.80	0% $30.00	12% $33.60	51% $45.30

High | Significant | Moderate | Low | Low | Moderate | Significant | High



Supplier risk management begins with a risk identification based on upon strategic importance and dependency

Supplier risk management approach

1. Identify Risks

- Screen supplier and categorize their risk potential based on:
  - key risk factors
  - dependency

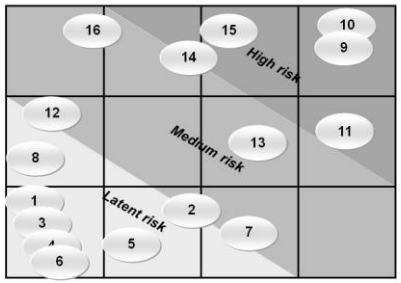
2. Define Potential Risk Scenarios

- Define scenarios for each risk cluster
- Develop preventive and reactive measures to mitigate risk

3. Measure and Prioritize Supplier Risks

- Develop scorecards to measure supplier health
- Prioritize suppliers by risk profile

Supplier Segmentation



Risk Scenarios

Supplier taken over	Supplier
Loss of major customer	**Supplier**
Scenario	Supplier will lose business of a large customer – up to 20% of total production could be affected

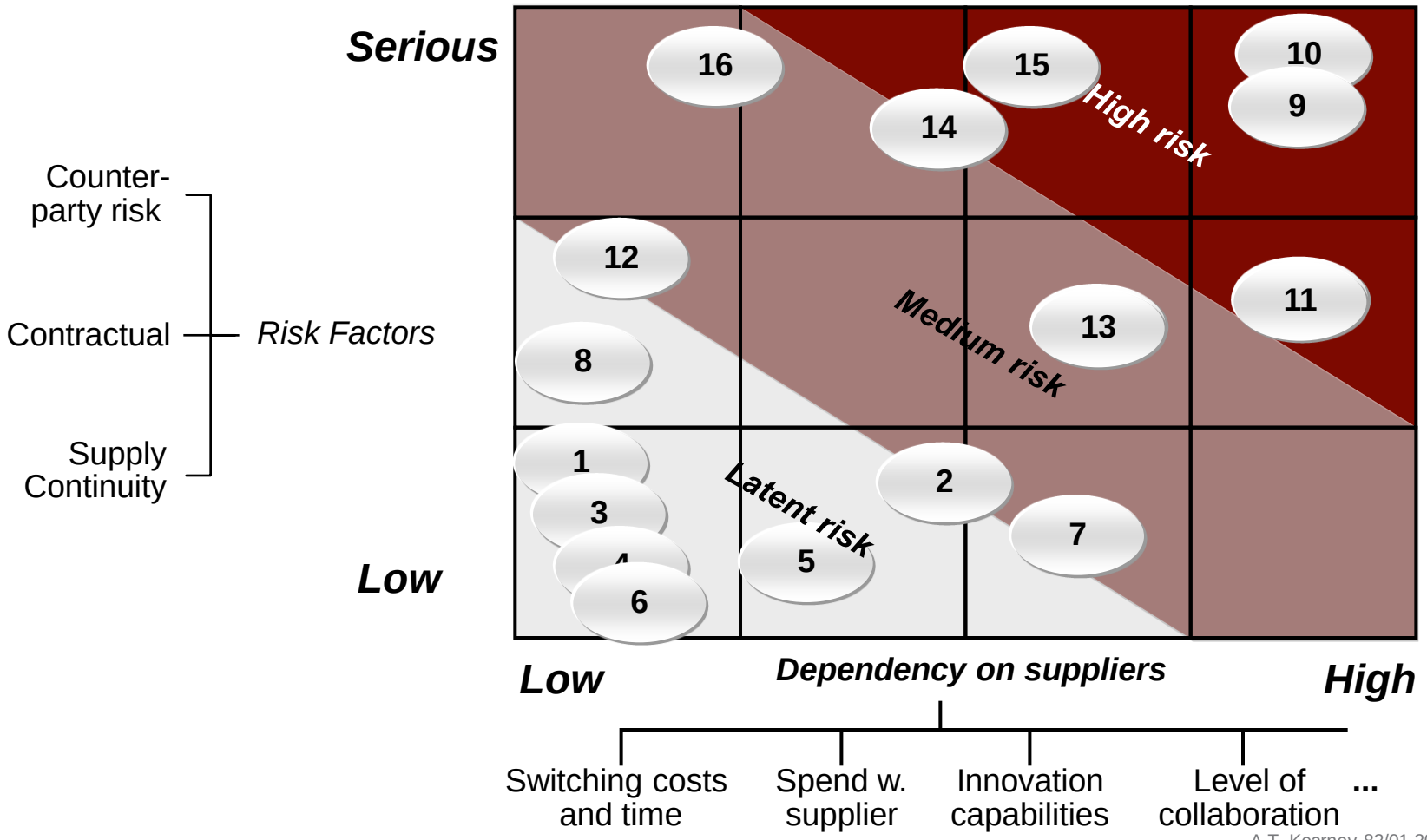
Impacts	Financial	Production	Legal
Impact Supplier:	Supplier is likely to run into cash flow problems	Overall reduction of production might lead to a production shut down for 1 day per week	Cash flow problems might lead to an insolvency
Impact Kärcher	Potential financing e.g. reduction of payment cycles might be required	Just-in-time production might require extension of "frozen period" and adding buffer stocks	Chapter 11: Potential lost of mould access / Chapter 7: Total production at risk
Overall likelihood	10%	Overall Risk Rating	
Financial impacts	$1.2B	High / Medium / X / Low	

Supplier Health Scorecard

1. Supplier risks are first identified and categorized by key risk factors and supplier dependency

Supplier screening

Illustrative Example



2. Potential risk scenarios are developed

High-level scenario analysis

Illustrative Example

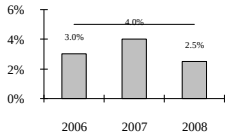
Loss of major customer	Supplier

Scenario	Supplier will lose business of a large customer – up to 20% of total production could be affected		
Impacts			
	Financial	**Production**	**Legal**
Impact Supplier:	Supplier is likely to run into cash flow problems	Overall reduction of production might lead to a production shut down for 1 day per week	Cash flow problems might lead to an insolvency
Impact on Client	Potential financing e.g. reduction of payment cycles might be required	Just-in-time production might require extension of "frozen period" and adding buffer stocks	Chapter 11: Potential lost of mould access / Chapter 7: Total production at risk
Overall likelihood	10%	Overall Risk Rating	
Financial impacts	$1.2B	High / Medium / X / Low	

3a. A comprehensive scorecard is critical to understand supplier health

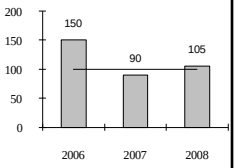
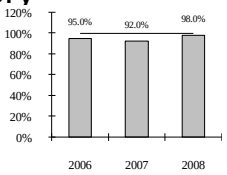
Illustrative

Financial Health	Status
• Liquidity: Quick ratio	Y
• Credit Rating	Y
• Leverage: Debt/Equity	G
• Cash Flow: CFRIC	R
• Declining Operating Perf.	Y
• Bankruptcy Risk (< 18 mos.)	Y
• ….	

Commercial Metrics	Status
• Price Reduction History – Target 5% per year	• 2.5% Y
	
• Price Increase Requests – Target 0% per year	• 5% R
• …	

Supplier Health Score

Y

Operational Metrics	Status
• Quality (PPM) – 100 PPM Target	• 105 Y
	
• On-Time Delivery – 100 % Target	• 98% G
	
• …	

Business Intelligence	Status
• Legal and Safety Issues	G
• Recent Hiring / Layoffs	R
• Facility Opening/Closure	Y
• Business Wins / Losses	G
• Org. Restructuring	G
• …	

Source: A.T. Kearney

3b. Measures of supplier health are combined with strategic importance to segment suppliers into risk profiles

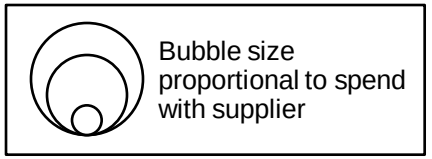
Supplier Health

- Develop supplier health scorecard
  - Financial Health
  - Negative change in Operational Metrics
  - Legal / Safety Compliance Issues
  - Business Intelligence (layoffs, expansions, major business wins / losses, etc)
  - …

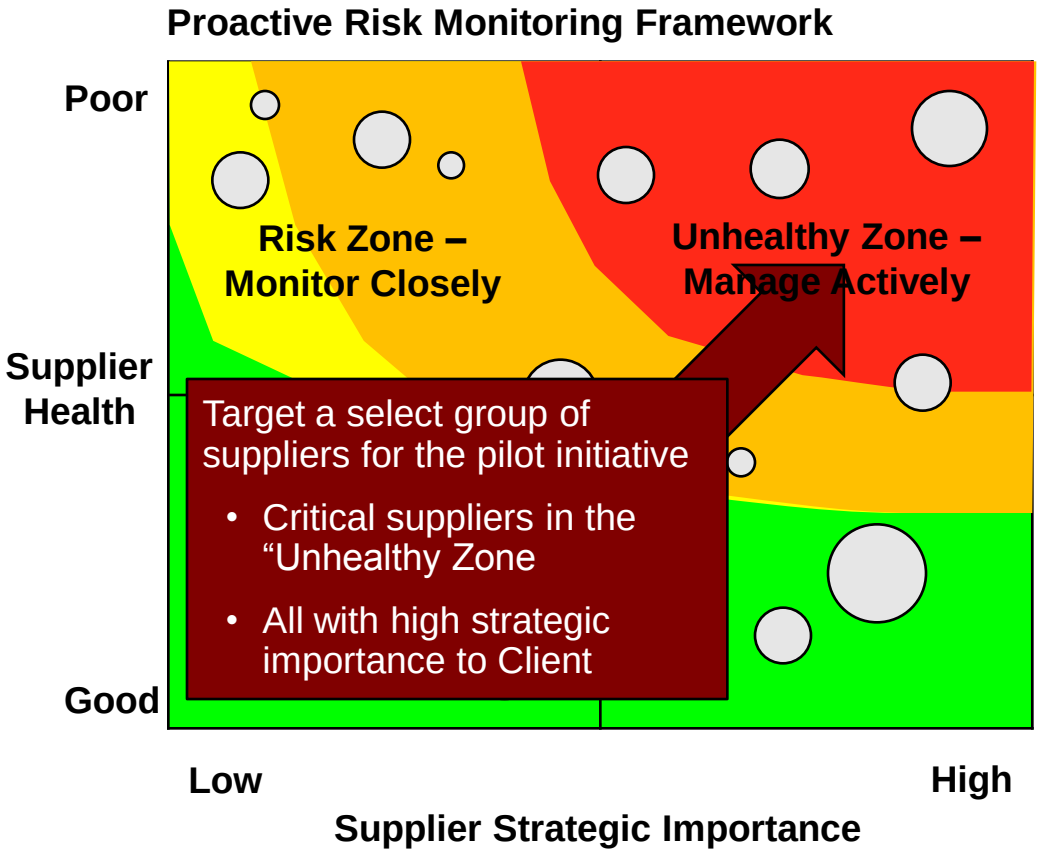
+

Strategic Importance

- Define strategic importance of supplier to Client. Examples include:
  - Supply Market Complexity
  - Proprietary technology / designs versus commodities
  - Re-tooling cost / switching cost
  - Unique supplier capabilities
  - Supplier development lead time



Illustrative

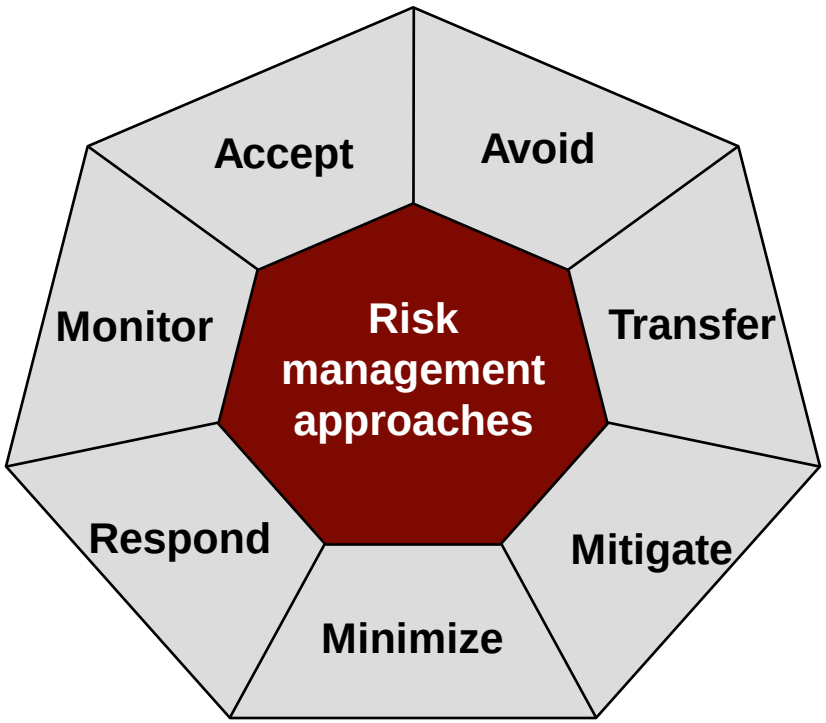


Source: A.T. Kearney

Managing the Risks

Risk can be managed through the use of seven approaches

Risk management approaches



Definitions

- **Risk Management Approach** - High level methods to address risk. Seven approaches can be used to manage most types of risk
  - **Avoid** – Proactive action that eliminates possibility of a potential event
  - **Transfer** – Proactive action (e.g., financial or legal) that shifts risk to a 3rd party
  - **Mitigate** – Proactive action that reduces the financial impact if an event occurs
  - **Minimize** - Proactive action that reduce the probability of an event occurring
  - **Respond** – Predetermined actions that are taken after an event occurs in order to reduce the impact
  - **Monitor** – Scanning of the environment to take alternative actions or implement certain measures if certain thresholds are exceeded
  - **Accept** – Decision made by the business to bear the risk exposure without taking any additional actions
- **Risk Management Actions -** Detailed, actionable activities to address risk. Actions are specific to the type of risk and environment

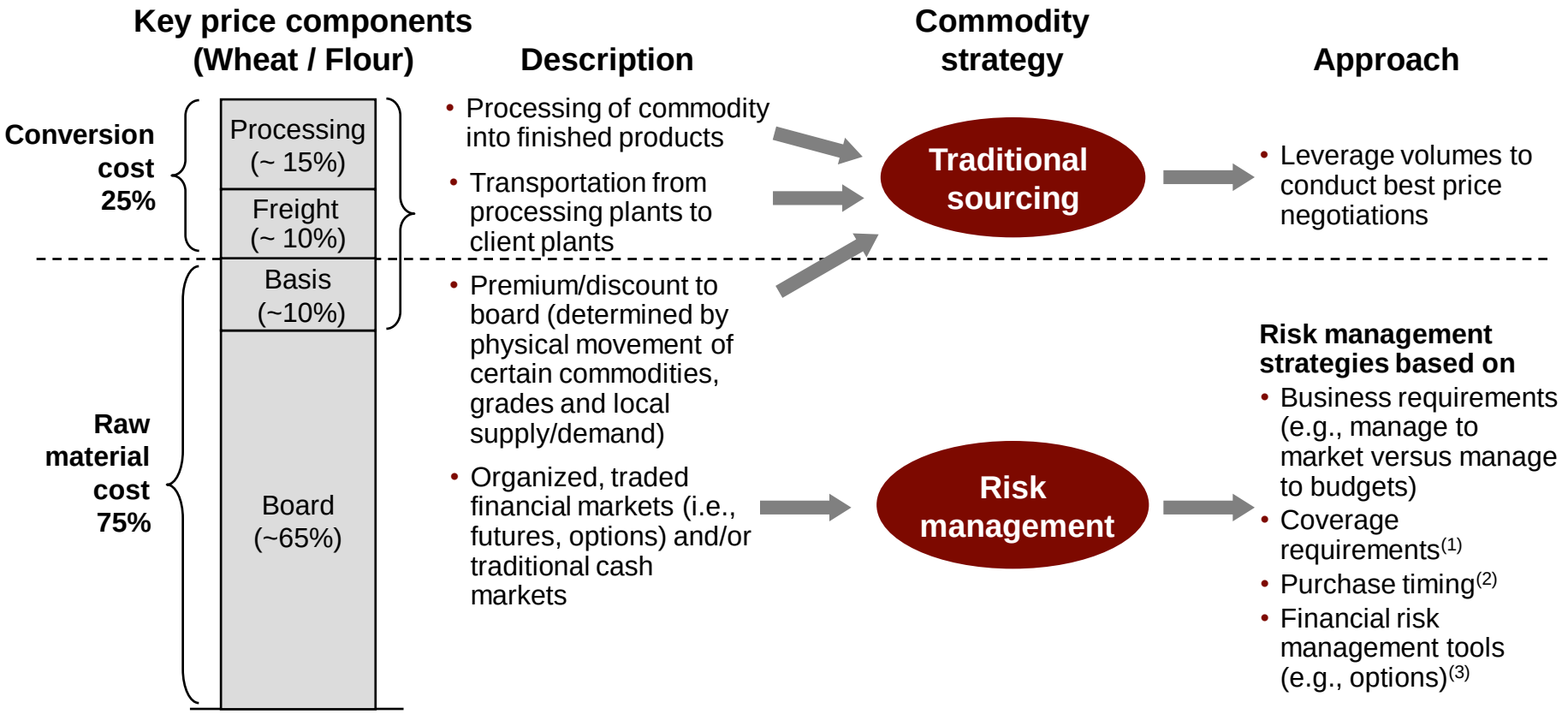
Managing the Risks – Examples

- **Wheat and Flour**
- Mega-Supplier Approach
- Stages of Excellence

For a large U.S. foods manufacturer, we combined traditional sourcing with risk management tools for exchange-traded commodities

Commodity strategy

Client example



(1) Coverage requirements relate to minimum volume requirements needed to ensure manufacturing / processing facilities have sufficient material to maintain continuous operations.
(2) Aggressive food companies typically attempt to purchase commodity products during seasonal lows.
(3) Financial tools are generally restricted to futures purchases and, occasionally, collars – as anything more aggressive is usually considered "speculative trading" which is not valued by financial market analysts

The first step in the process was to determine the client's over-riding business requirements for the category

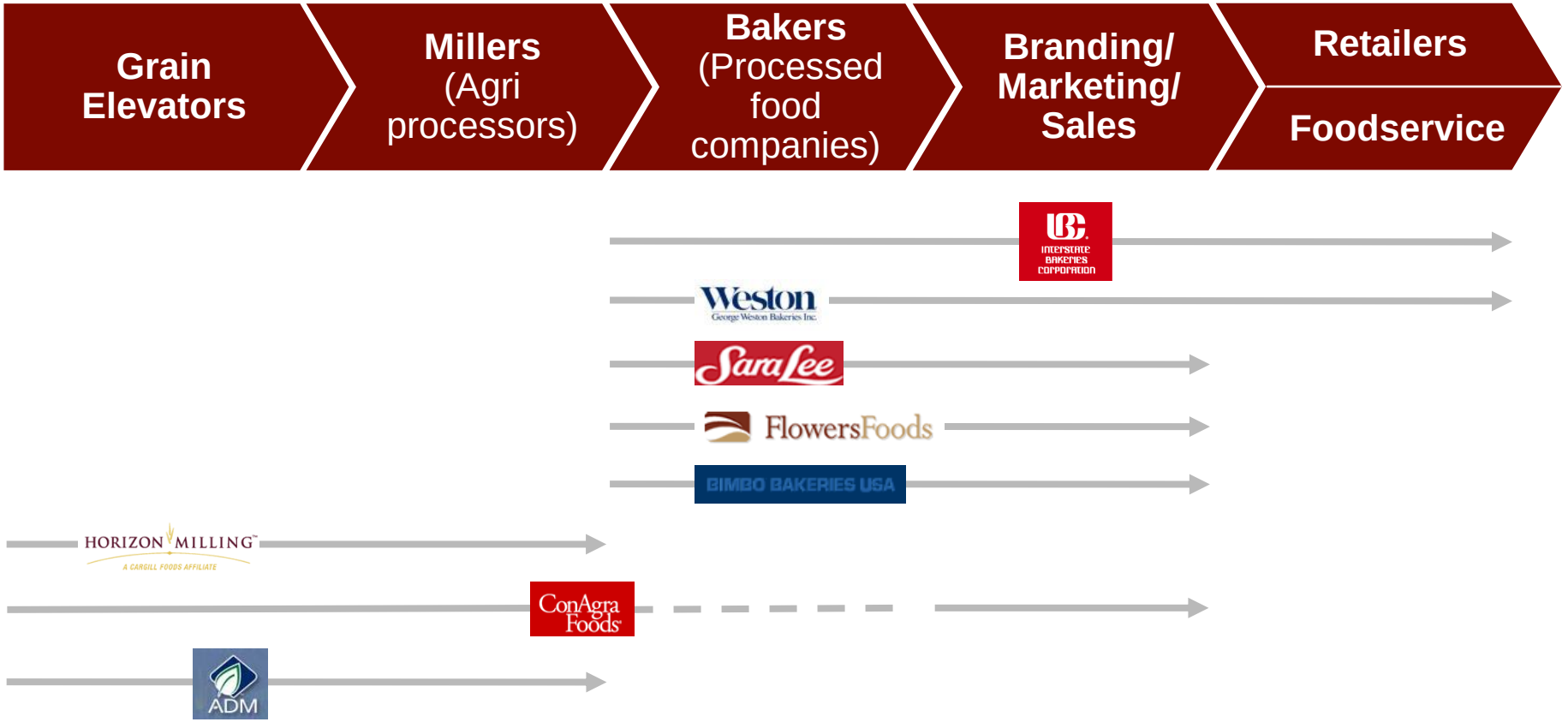
	Key business requirements	Client example
Predictable prices	• Client aims to meet or exceed AOP, by commodity, on both a quarterly basis and an annual basis • Predictable refers to prices that are known or can be secured out to a defined time horizon (e.g. 6 to 12 months)	
Competitive prices	• Client aspires to realize market average or better commodity prices on a quarterly and an annual basis (board, basis, and by-products)	
Stable prices	• Client seeks to engage in activities that result in conversion costs (milling margin, freight) that are equal to or less than the prices realized in the previous fiscal year	

Assumption was that Client purchases high quality flour that will meet required specifications, be stable and be consistent for its bakeries

In parallel, we conducted a detailed analysis of the value chain and the key competitors and suppliers

Flour value chain

Illustrative



Sources: OneSource; Company 10-Ks; A.T. Kearney Analysis

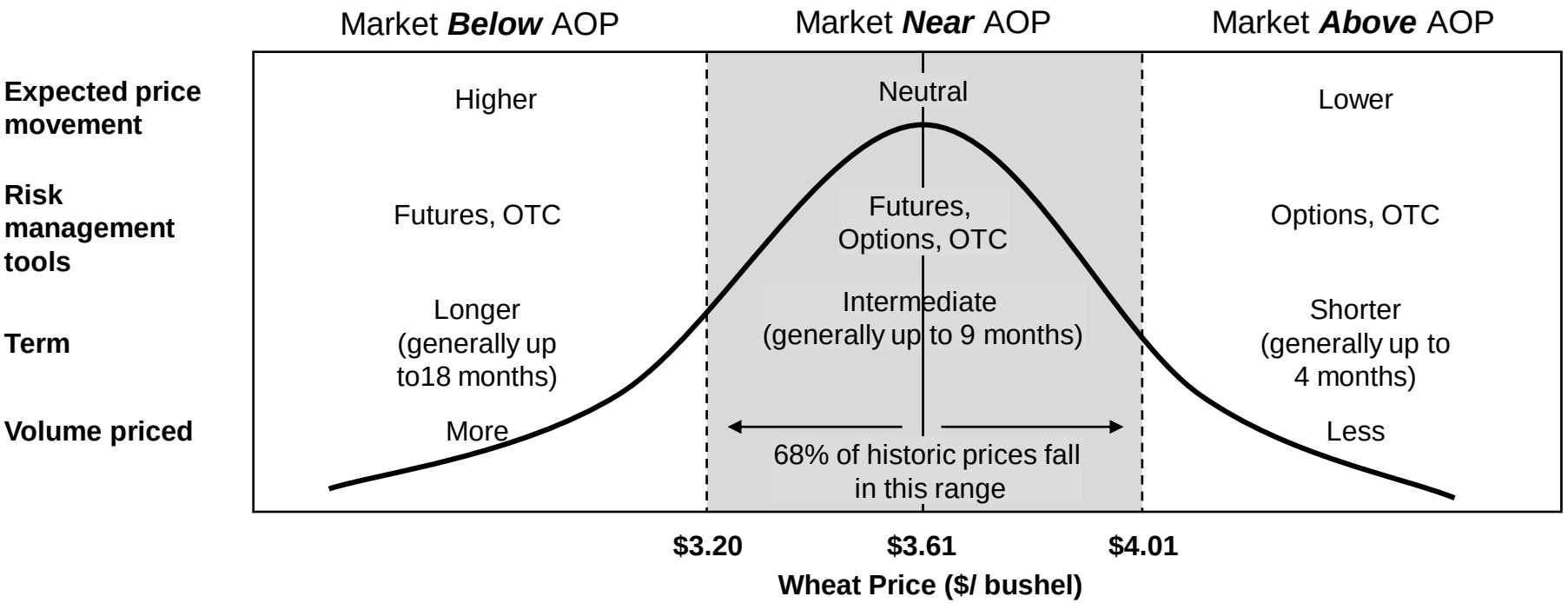
The next step in the process was to adopt the appropriate purchasing approach for the Client

Purchasing approaches

Client current strategy → Recommended strategy

	1. Manage to AOP	2. Manage to Market	3. Blended AOP / Market
Strategy description	• "Lock-in" prices for extended periods when market prices are at AOP targets	• Follow market prices to ensure competitiveness	• Use risk management tools to meet AOP and allow some competitiveness
Process for setting AOP	• AOP based on best available futures information	• AOP set at 0.5 std. dev above 10 year market average – "upper ceiling"	• AOP based on best available futures information and adjusted for risk premiums
Changes to existing strategy	• None	• Buyers are constrained from purchasing more than 3 months unless historical market lows prevail • Buyers are rewarded based on performance relative to market (not to AOP) • If actual prices approach upper ceiling, commodity manager works with business units to determine use of risk management tools	• Active participation by key suppliers during AOP target setting process • Broader use of risk management tools (e.g., options) • Consider extending or "locking in" positions over an 18-month period using a combination of futures, options and OTC tools
Benefits	• Strong possibility that AOP will be protected • High price predictability over 12-18 months	• Actual prices are likely to be competitive and in-sync with the market • Buyers must more closely monitor markets	• Strong possibility that AOP will be protected • Some degree of market competitiveness
Issues / Risks	• High probability that prices will be uncompetitive with market	• Higher AOP may result in unacceptable finished goods prices • If market prices are significantly above 10-year average prices (and thereby above AOP), the company may not be able to protect AOP • Requires significant cultural change	• Premiums are likely to be priced into the AOP • Actual prices paid are likely to be out-of-sync with the market • Difficult to measure and reward buyers based on performance relative to actual market prices
Execution difficulty	• Easy	• Difficult	• Medium

Clear guidelines on risk management needed to be determined ahead of time …



Execution	When prices are at historic lows, use futures and OTC tools to extend positions up to 18 months and maximize volumes	When prices are near historic average, use basket of derivative tools to extend coverage over medium term; evaluate use of price collar to ensure predictability and minimize premium	When prices are at historic highs, use options and OTC tools to limit both length of position and volume to create opportunity to purchase when prices fall, while establishing a price ceiling

… to ensure the proper usage of the large range of risk management tools

	Forwards	Futures	Options	OTC tools
Description	• A contract committing the user to buying or selling an asset at a specific price on a specific date in the future	• A forward contract that is traded on an exchange	• A contract that gives its holder the right but not the obligation to buy or sell a particular asset at a specified price on or before a given date	• Over-the-Counter tools are non-exchange traded
Advantages	• Guarantees against price fluctuations	• Standardized quality, quantity and delivery time, parties need only agree on price and number of contracts • Lock in purchase price without committing to a specific supplier • Performance of futures contract guaranteed by clearing house	• Lock in purchase price without committing to a specific supplier • Known cost up front; risk limited to premium paid (and basis) • No further action required, but may be offset or exercised if advantageous	• Highly flexible and can be tailored to any commodity • Can be imbedded into the physical product
Disadvantages	• Counter party risk • Privately negotiated and are not standardized • Lack of liquidity – potentially higher transaction and entry/exit costs • Must perform on contract or offset	• Margin account required; subject to margin calls • Must perform on contract or offset • Can't benefit from lower market prices	• Required to pay option premium up front • Will lose option premium if options expire out-of-the-money	• Not standardized and not traded on organized exchanges – requires 3rd party dealer

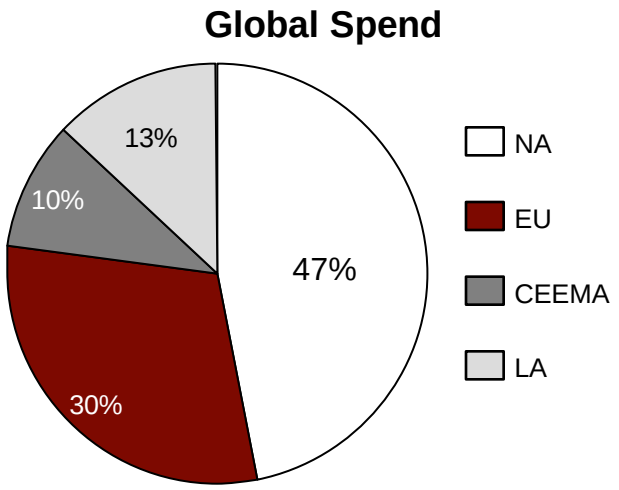
Source: Chicago Board of Trade; Institute for Financial Markets; A.T. Kearney analysis

Managing the risks – examples

- Wheat and Flour
- **Mega-Supplier Approach**
- Stages of Excellence

For a CPG client, we addressed one third of their commodities spend in a mega-supplier project

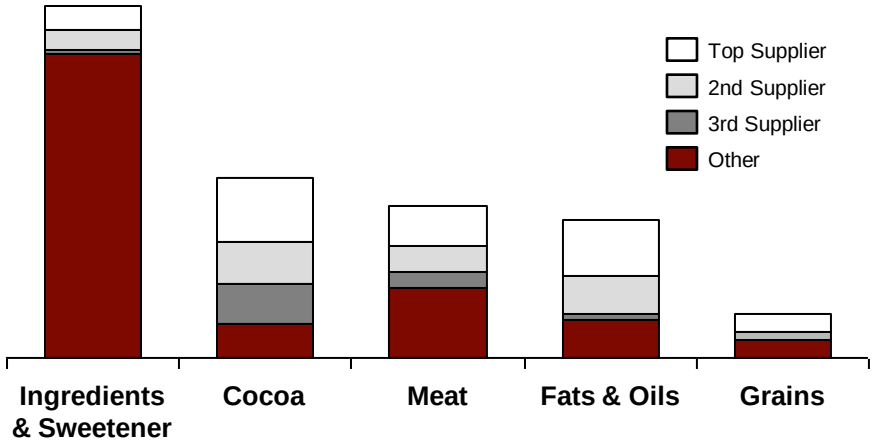
Client spend by region ($MM)



Supplier Market Mechanism

- On average across categories, conversion cost represented approximately 20% of total cost
- Underlying commodity typically managed on the financial market, disconnected from the supplier/processor

Global major spend categories ($MM)



# of suppliers				
50+	30+	50+	30+	20+
# of SKUs				
1000+	100+	100+	200+	40+

Fragmented and uncoordinated spend

Client's relationships with commodity suppliers were largely tactical and local

Commodity conversion sourcing practices

Client sourcing practices

- Competitive, bidding-focused environment
  - Distribute spend to create maximum competition among supplier base
  - Shorter-term contracts with limited scope
- Local, regional execution
  - More than 30 buyers negotiating contracts with largest supplier individually
  - No supplier had more than 35% share of any category
- Cost rather than value focus
  - Limited integration with R&D
  - Metrics not incentivizing long term value creation

Implications

- Underleveraged spend globally
- Reduced access to supplier driven innovation and productivity projects
- Proliferation of specifications
- Resources mostly allocated to highly tactical activities
- Increased complexity of interfaces
- Reduced internal R&D leverage

The mega-supplier strategy was intended to transform supplier relationships into global strategic partnerships

Mega Supplier strategy

Leverage Client's scale

- Go to market with superior value proposition for mutual benefit for Client and supplier (consolidate spend to fewer suppliers, holistically optimize spend mix)
- Global negotiations
- Ensure preferred customer status

Restructure relationships

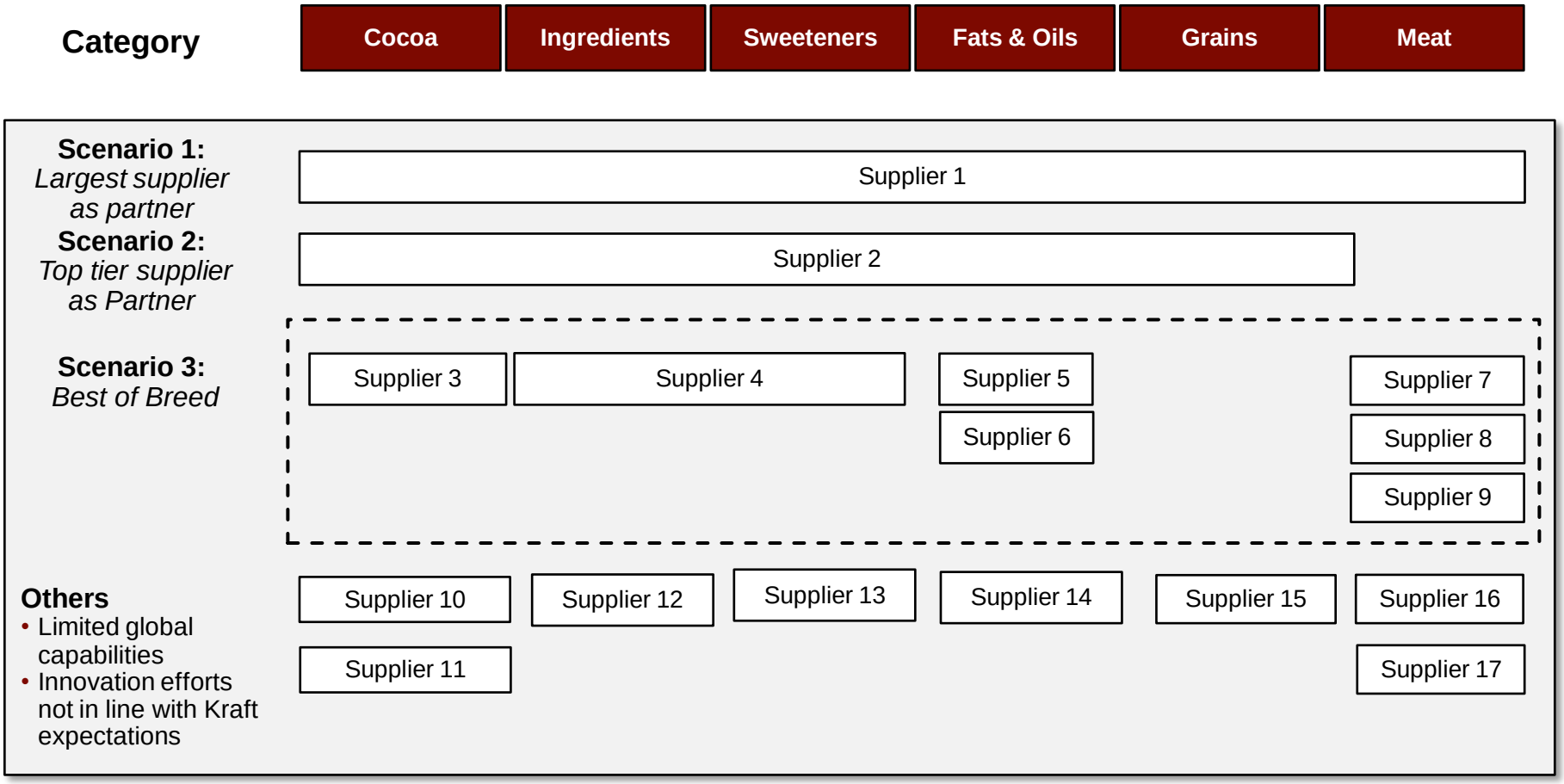
- Establish "one global voice" on both sides
- Longer term contracts
- Establish complete cost transparency

Build platform for future growth

- Create a win-win mentality by incentivizing and managing joint value creation
  - Innovation programs
  - Productivity improvement projects

Three key scenarios emerged including both category specialist and cross-category generalists

Global market structure and possible scenarios



Based on a total assessment of all proposals the team recommended Best of Breed as the way forward

Ranking of scenarios
(Based on current offers)

Top tier supplier as partner

Financial benefit

- Negative impact on cost position

Innovation capability

- Falls short in comparison with others

Relationship structure

- Voiced preference to maintain tactical relationship with Client

Largest supplier as partner

Financial benefit

- ~1% up-front payment
- ~1% cost step-down

Innovation capability

- Supplier vision of one-stop-shop (technology integrator)

Relationship structure

- Process revealed inability to act as one company

Recommended scenario

Best of Breed

Financial benefit

- ~3% cash impact
- 3%+ cost step-down

Innovation capability

- Clear market leaders in respective categories
- Preferred choice of R&D

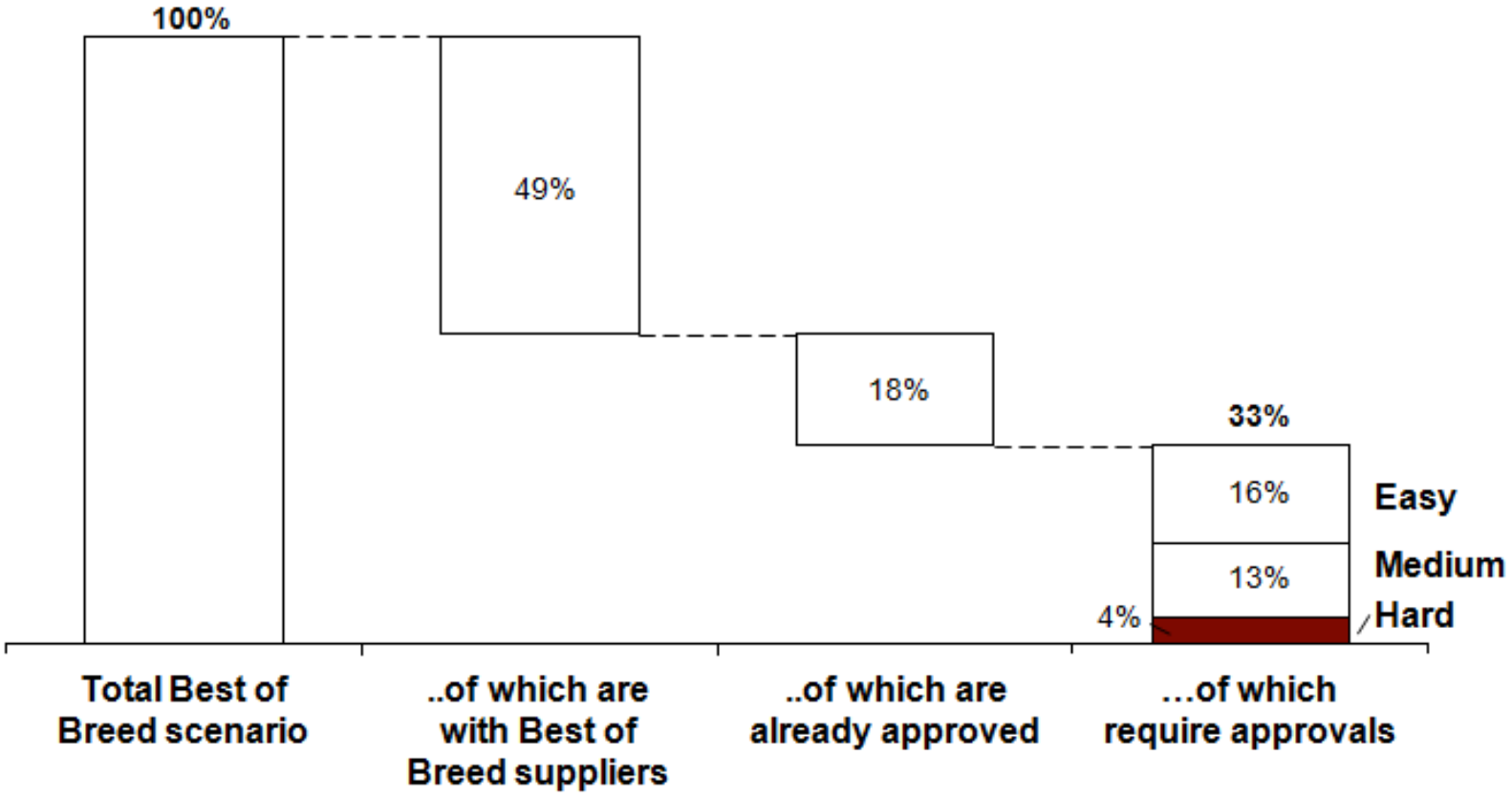
Relationship structure

- Able to provide strategic, category specific relationships with joint innovation programs

Risks were manageable as volumes considered "hard to approve" accounted for only 4% of spend

Best of Breed assessment of approval complexity(1)

(volumes in million of pounds)



Notes: (1) Based on SKU level assessment of about 30% of volumes to be approved
Source: Client R&D, A.T. Kearney analysis

This approach resulted in 10-15% savings of addressed conversion

Results

- Addressed several billion in spend in a **single go-to-market effort**
  - 75% underlying commodity
  - 25% conversion cost
- **Significantly consolidated supplier base** offering a 3X growth for selected suppliers
- Achieved about **10-15% cost reduction on conversion cost** (~3-5% on total spend including underlier)
  - Significant upfront payments
  - Remaining savings as price reduction
- **Long term agreements** established
  - Preferred customer status
  - Joint innovation structures in place
- Populated **pipeline of joint productivity improvement projects**

Managing the risks – examples

- Wheat and Flour
- Mega-Supplier Approach
- **Stages of Excellence**

Evaluate current risk management program against leading practices for each Procurement Area (Packaging, Ingredients, Indirect)

Risk management stages of excellence

Group	Element	Leading practice (Level IV)	DPSG Current risk management program	Level			
				I	II	III	IV
Strategy & Org. alignment	**Strategy / Policy**	• Clear, company-wide positions on risk tolerance and processes are communicated and effectively embedded within the corporate culture					
	Resources	• A skilled and fully dedicated set of individuals are responsible for running the Risk Management program. Stakeholders throughout the organization provide input and assistance on an on-going basis					
	Incentives & performance metrics	• Risk Management metrics are incorporated into corporate, business, and employee performance goals and a portion of individual compensation is tied to reaching RM goals					
	Governance & decision rights	• The Board is actively involved in the management of risks • One individual is accountable for corporate Risk Management (i.e., CRO or equivalent). Decision rights are clearly defined for each type of risk including supply chain					
Core processes	**Enterprise risk management**	• Risk types are assessed and prioritized at the corporate level, with resources allocated to the risks with the greatest exposure • Cross-risk analysis is performed at the enterprise level					
	Individual risk planning	• A rigorous, well-documented planning framework consisting of leading indicators is followed throughout the company and its functions					
	Tracking & reporting	• Standardized, timely reporting of risk exposure and management strategies					
Key enablers	**IT systems**	• IT systems are leveraged to support efficient/timely updates					
	Instruments	• Templates, surveys and other information tools are leveraged to facilitate Risk Management process					
	Culture & Training	• Risk management training (e.g. policy, process, tools) is routinely provided to internal and external stakeholders					

Source: A.T. Kearney Analysis

Assessing and Mitigating the Supply Risks

Presentation to ISM Hispanic Supply Management Summit

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