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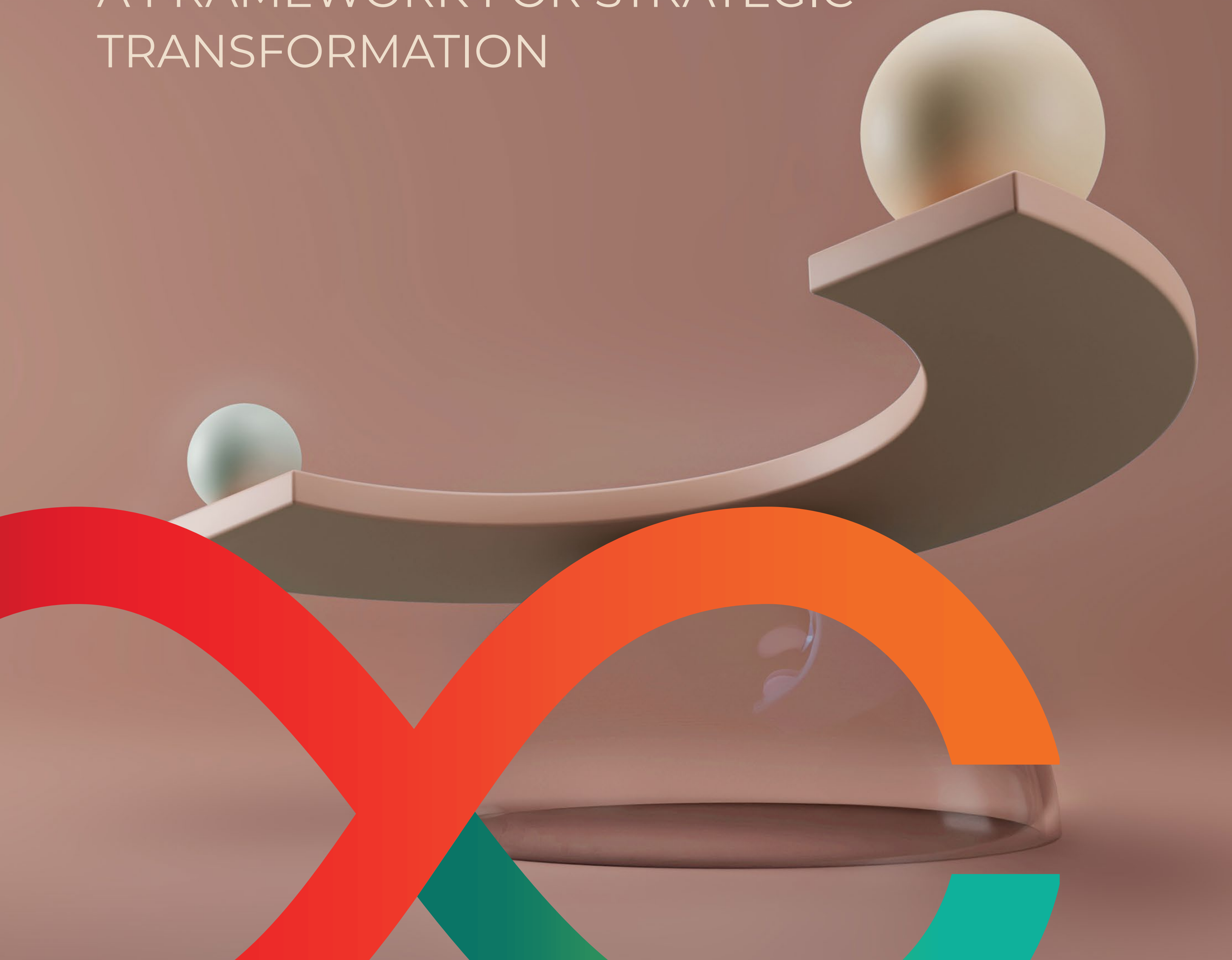
WNS Procurement's guide to

Supplier risk management

A FRAMEWORK FOR STRATEGIC TRANSFORMATION



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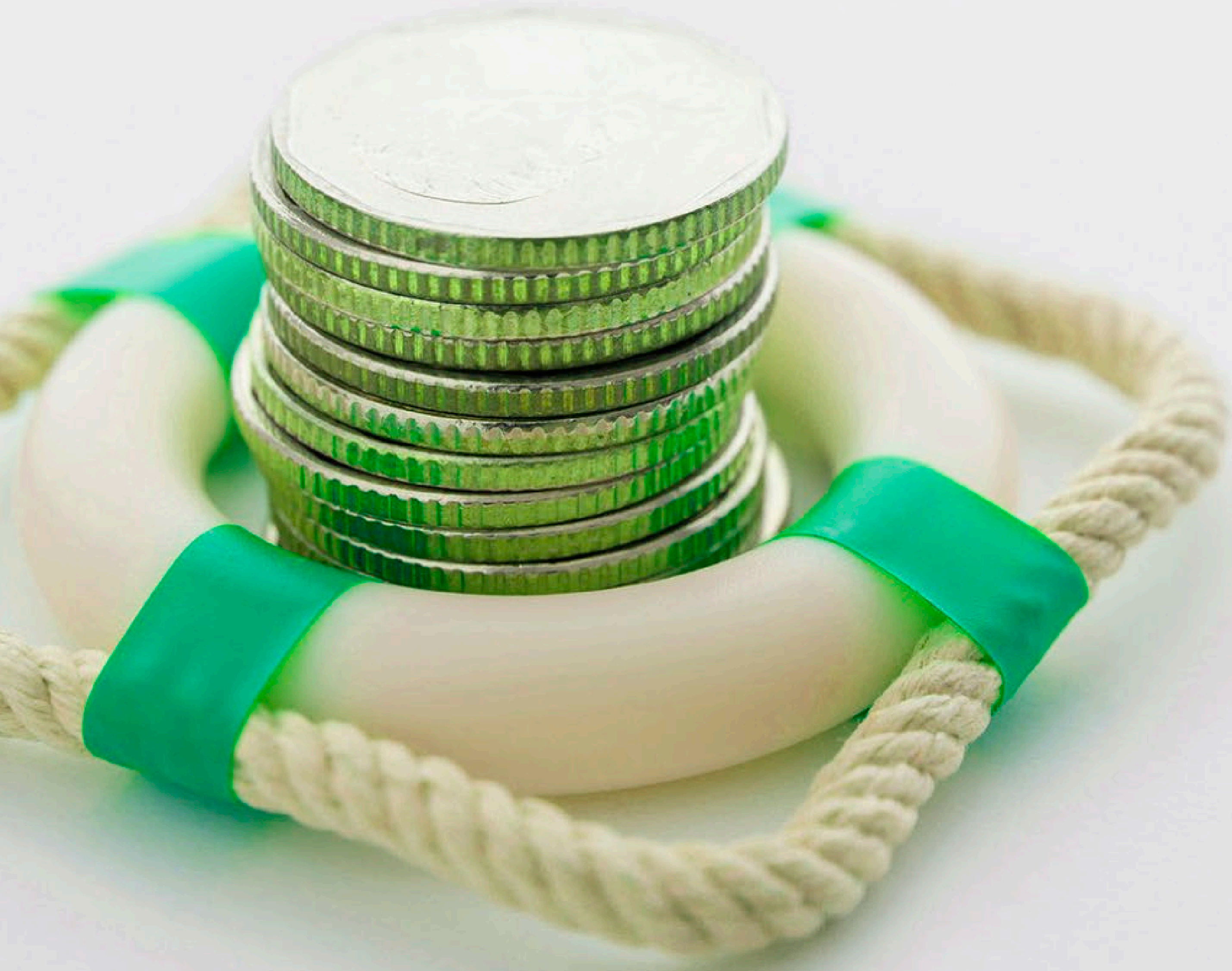

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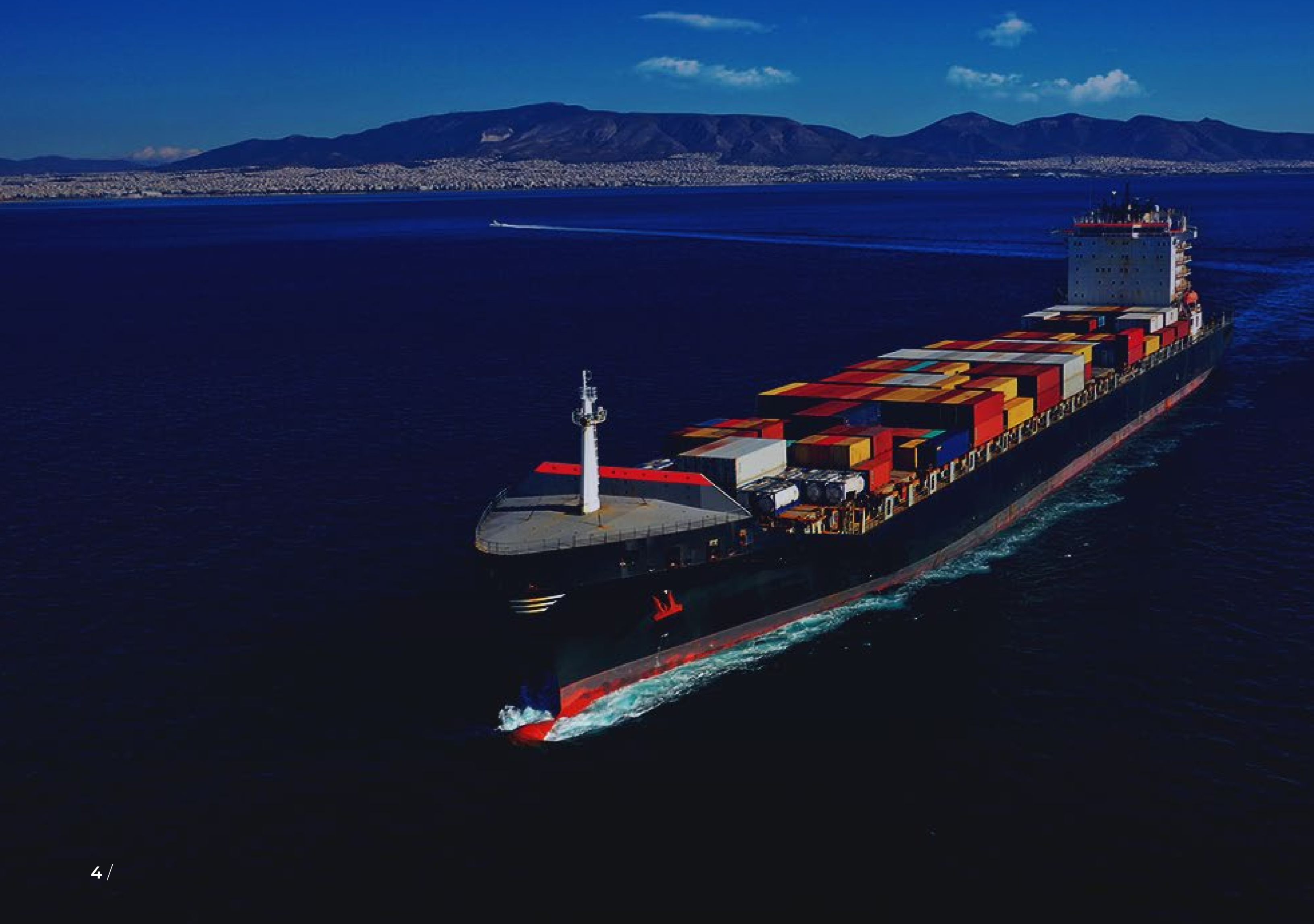
Supplier risk management has evolved from just a box-ticking exercise to a strategic priority for many organizations.

Frequent disruptions across many supply and demand markets are prompting supply chain leaders to rethink the way they identify and manage risk, aiming to take a more proactive, preventative approach.

Risk managers can't just rely on the credit checks and basic research they did in the past – now, it's a case of gathering extensive intelligence to manage third-party risk from all angles.



However, many functions aren't quite at this stage. Preliminary insights from our 2024 Supplier Risk Management survey revealed that a lot of organizations are still experiencing gaps in their strategies.

We found that

50%

only get minimal notice before risks emerge and some only discover risks after they've created disruption

25%

still don't have a formal risk management program

20%

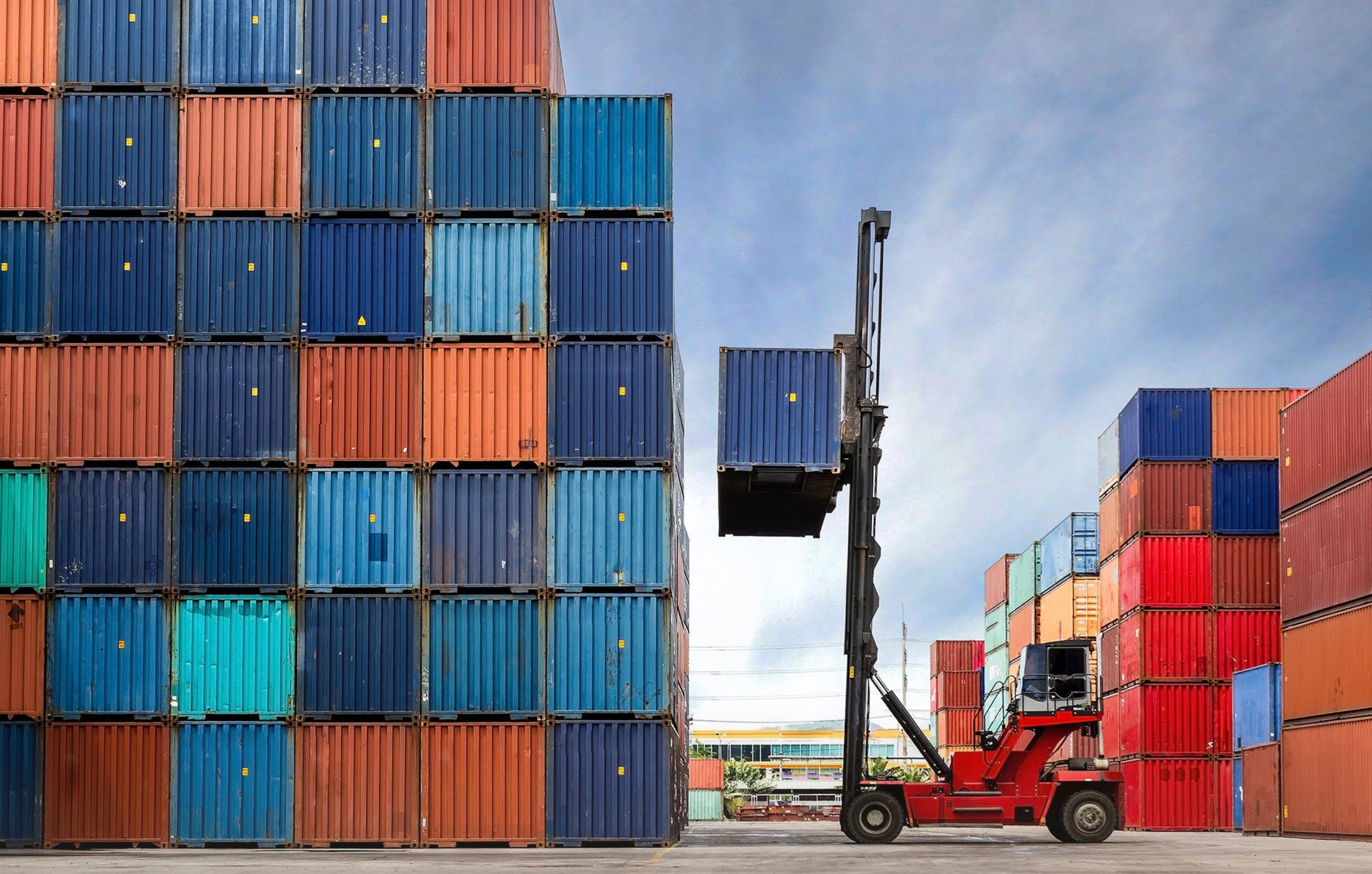
don't have sufficient resources to create a comprehensive risk management strategy

For these organizations, building effective, intelligence-driven supplier risk management strategies should be a priority.

To help, we've compiled insights from our experts in this strategic guide, offering a comprehensive look at the state of risk management today and the barriers preventing many organizations from evolving.

You'll also find a robust framework for transforming your function, complete with core principles to keep you aligned at every step of the journey, and insight into how generative AI can support you.

Let's dive in.



Section 1

The evolution of supplier risk management

Supplier risk management is a function that's experienced constant change.

Historically, it's been seen as a cost center. Many teams did the bare minimum to ensure due diligence, never dedicating more time and resources than was essential.

The goal was to avoid disaster while designing supply chains and supplier portfolios to meet operational objectives. Any checks were purely based on credit risk ratings to ensure suppliers wouldn't go bankrupt.

As regulations around corporate governance and social responsibility grew, many companies started focusing on remaining compliant with business codes of conduct and industry standards. But crucially, it was still a function viewed as a means to an end.

Where we are now

The start of resilience focused procurement

Today, there's a much stronger link between third-party risks and business resilience. And that's partly down to the disruption we've all experienced over the last few years.

Whether due to the pandemic, extreme weather events, or geopolitical conflicts – many organizations have seen how quickly supply chains can be disrupted. And how even a single, local disruption can bring entire operations to a halt. These instances contain a valuable lesson: you can't engineer supply chains for efficiency alone. Buffers and contingencies must be built in at every stage to keep supply chains flexible and resilient to disruption – from diversifying supplier portfolios to modelling potential disruption scenarios.

Ultimately, the disruptions have given rise to a new, intelligence-driven procurement team. While policies and controls guide behaviours and ensure risk-aware decision-making, it's now timely and contextual intelligence that's used to make the decisions that create business value.

And this is just the beginning.

What's next

Risk management as a value center

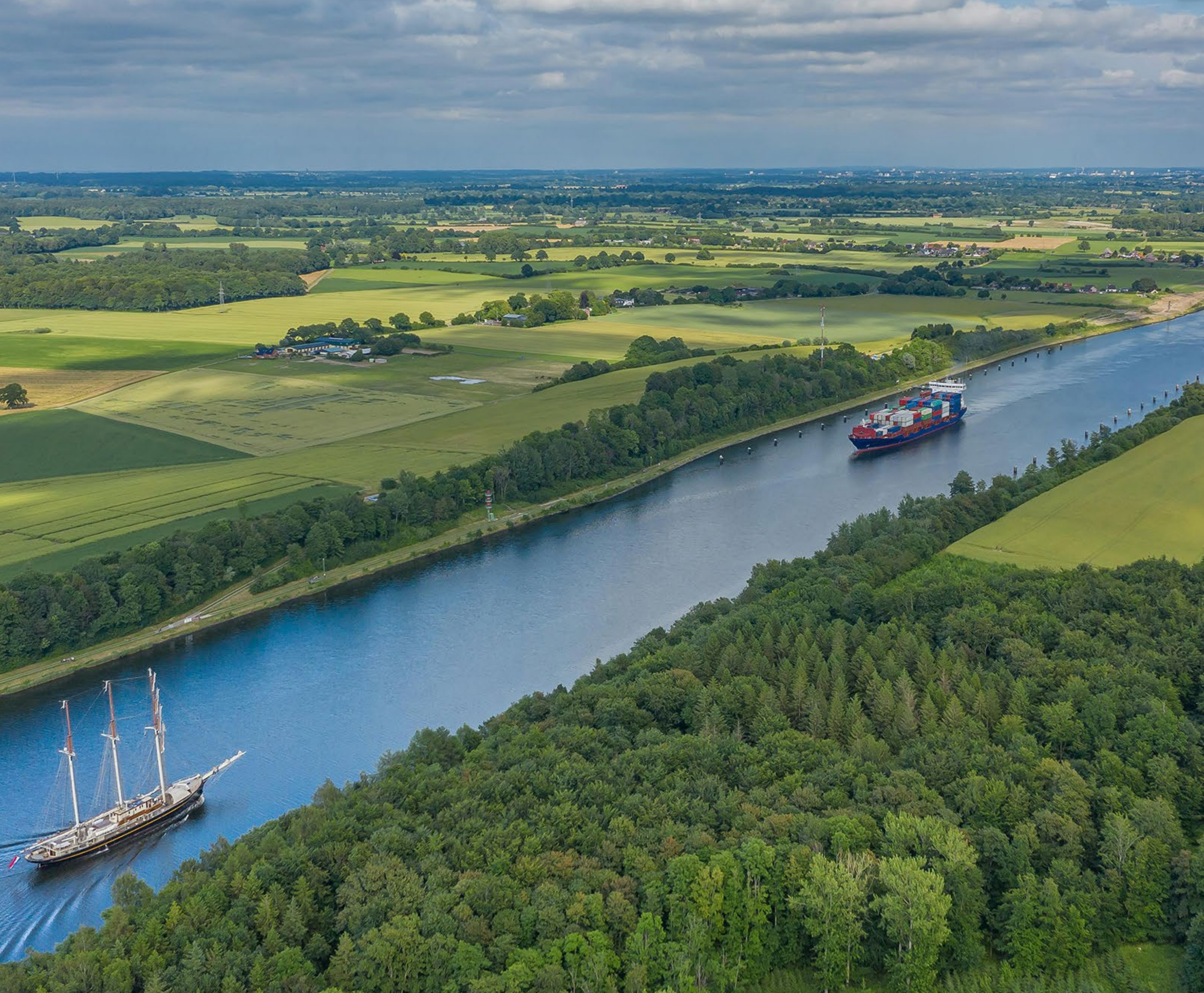
Now, some forward-thinking businesses are starting to see their risk management function as true value centers.

When risk intelligence is contextualised by specialists to align with your business goals, what you get isn't just a view of risk – it's also a view of opportunities.

For example, it can enable procurement teams to engage with suppliers who have unique offerings and are ahead of shifts in the market. Or it can allow them to spot suppliers who have effective emission reduction programs that can lower the carbon footprint across the entire supply chain.

By partnering with the right suppliers, procurement teams cannot just mitigate risk and increase resilience, but also create real business value.

So, what's stopping procurement leaders from adopting this new, value-focused way of thinking?



Section 2

The barriers in supplier risk management today

While some leaders recognise the potential of their supplier risk management functions, many current practices are still falling short of expectations.

We’ve identified six significant problems we see in many supplier risk management functions today.

01

A lack of resources and awareness

One of the main reasons organizations' supplier risk management efforts aren't delivering their full potential is that teams simply haven't allocated the right resources to them yet.

Our 2023 Supplier Risk Management Survey found that 53% of firms don't have a clear mandate for supplier risk management, making it difficult to gain the resources they need to manage it well. In many cases, companies haven't appointed chief risk or compliance officers, so risk has no seat at the executive table.

02

Highly limited risk coverage

To manage third-party risk effectively, teams need to examine and track as many relevant risk vectors as possible. However, the survey revealed that many firms have major gaps.

A large number of organizations don't effectively monitor the financial risk of their suppliers, and over 80% don't monitor ESG and sustainability risk, leaving themselves exposed to potential reputational damage.

In some cases, leaders will just rely on point-in-time credit risk checks as their primary source of information. But this only captures risk at a specific moment, and circumstances could easily change after supplier onboarding.

The result is that most organizations aren't able to detect risks before they occur and can't proactively mitigate the risks they're exposed to.

03

Lengthy vendor onboarding processes

Many vendor due diligence processes, while essential, can take as long as three to six months. And they often involve highly manual tasks and multiple follow-ups with suppliers.

During this time, vendor information can become outdated, vendors' risk profiles can fluctuate, and organizations' own needs can change. By the end of the process, you can't be fully confident that the risks deemed manageable haven't escalated or that new risks haven't occurred.

The time-consuming process can also add delays to your operations. When disruption hits – such as a drought affecting a commodity's supply – and you need a new vendor quickly, the due diligence process can slow down your response.

04

Low level of integrated and holistic visibility

Most organizations have a lot of the data they need for supplier risk management, but in many cases, it's trapped across diverse, siloed systems.

That means procurement teams don't have a holistic view of risk. In fact, our survey found that over 80% of organizations don't have an integrated dashboard for visualising risk. And without that visibility, they're unable to manage risk effectively across different vendors.

To add to the challenge, without a consolidated view of risk, procurement practitioners in a single team might tackle risk differently. These inconsistent decisions can quickly lead to patchy exposure to supplier risk and potentially invite disruption.

05

Minimal access to specialist advice

Once a risk has been spotted, procurement experts need actionable intelligence to remediate it – but few organizations have this.

Our survey found that just 10% of firms have access to supplemental risk deep dives that can help them contextualise their own data and insights. Within those organizations, internal stakeholders often choose remediation actions based largely on what they can personally see or what their individual goals are.

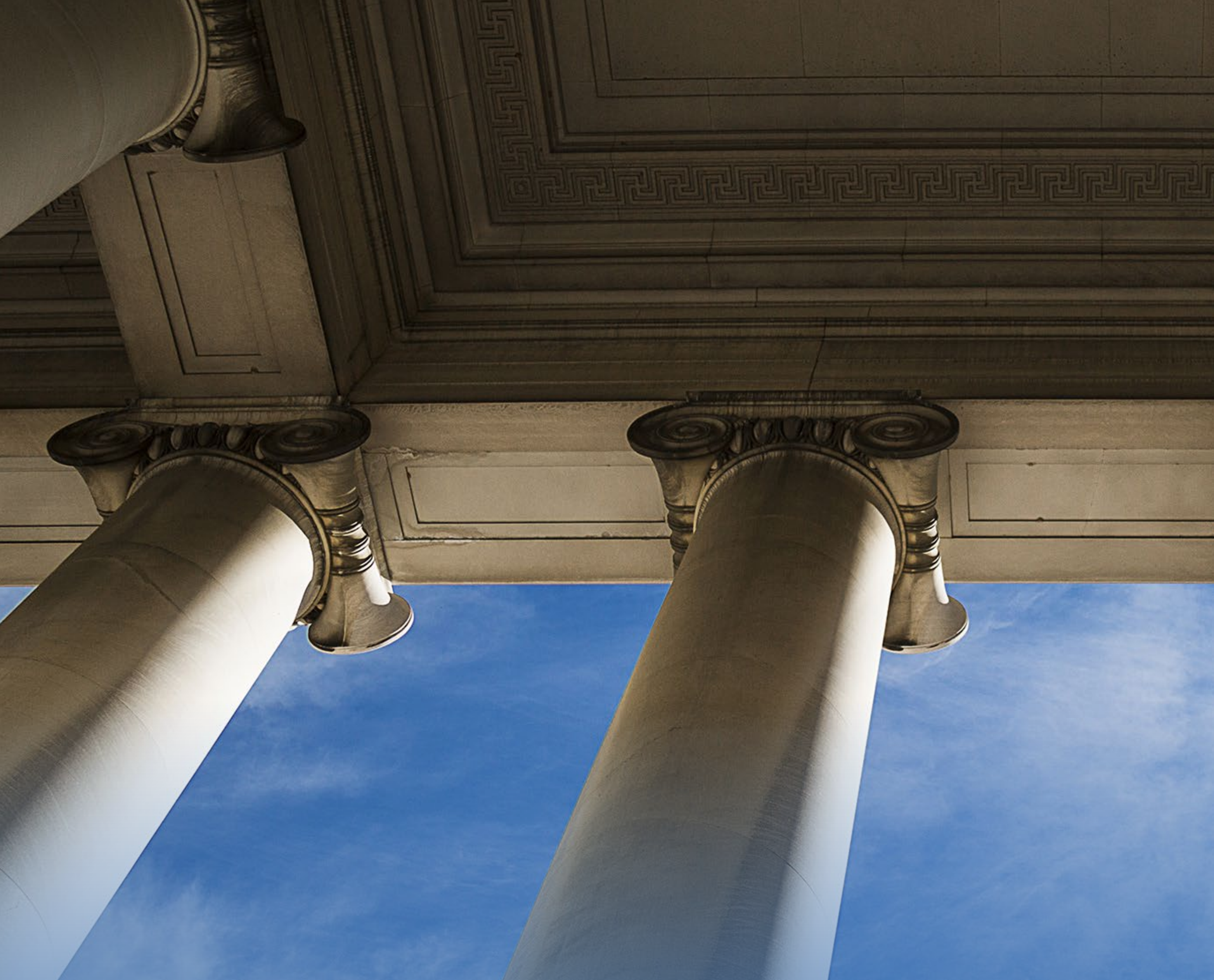
These approaches limit the consistency of a risk management function and the strategic impact of how risk is dealt with.

06

Low coordination and ineffective responses

In many cases, these remediation actions aren't formally tracked, either. If teams don't track the actions taken in response to identified risks, it significantly increases the likelihood that no remediating action will be taken at all.

Instead, individual responsibilities become unclear, responses slow, and risks quickly materialise before anyone has done anything about them.



Section 3

The four pillars of supplier risk management transformation

While few organizations currently have the combination of reliable intelligence, consistent processes, and holistic visibility they need to effectively manage and mitigate supplier risk, there is a way to build these qualities.

Here are the four pillars for a ground-up transformation of supplier risk management.

Enable wide and continuous risk listening

Organizations need to actively monitor risks in as many forms as possible. Financial and operational risks are already widely tracked, but other risks around cybersecurity, ESG or labor, to name a few examples, have become just as important to protecting reputation and ensuring compliance with increasingly stringent regulations.

This monitoring should be continuous, too. Risk isn't static and snapshots of conditions can't be relied upon long-term. To facilitate regular monitoring, leveraging automated platforms, supported by AI, to process greater volumes of data and provide faster intelligence is essential. Using trusted and curated sources ensures more accurate insights, enabling quicker and more effective risk management.

Conduct integrated and dynamic risk assessments

Wide listening helps you identify and track all relevant risk signals, but to have the right impact, these signals need to be brought together and assessed holistically.

By looking at diverse signal and performance data in one place, procurement teams can gain a true understanding of a supplier's risk profile. That holistic view of risk can then be used to make balanced, informed decisions about how best to engage with a particular supplier.

Provide access to specialists and on-demand intelligence

Once you've identified a risk, you need to respond in the right way. To do that effectively and consistently, internal teams require access to specialist support and actionable intelligence related to their identified risk.

For example, if your team detects that a particular commodity is likely to rise in demand soon, they'll need bespoke, contextualised intelligence. This should cover the likely impact on your organization and its operations, but also potential price and availability fluctuations, alternative suppliers or regions, as well as alternative commodities that could be procured instead.

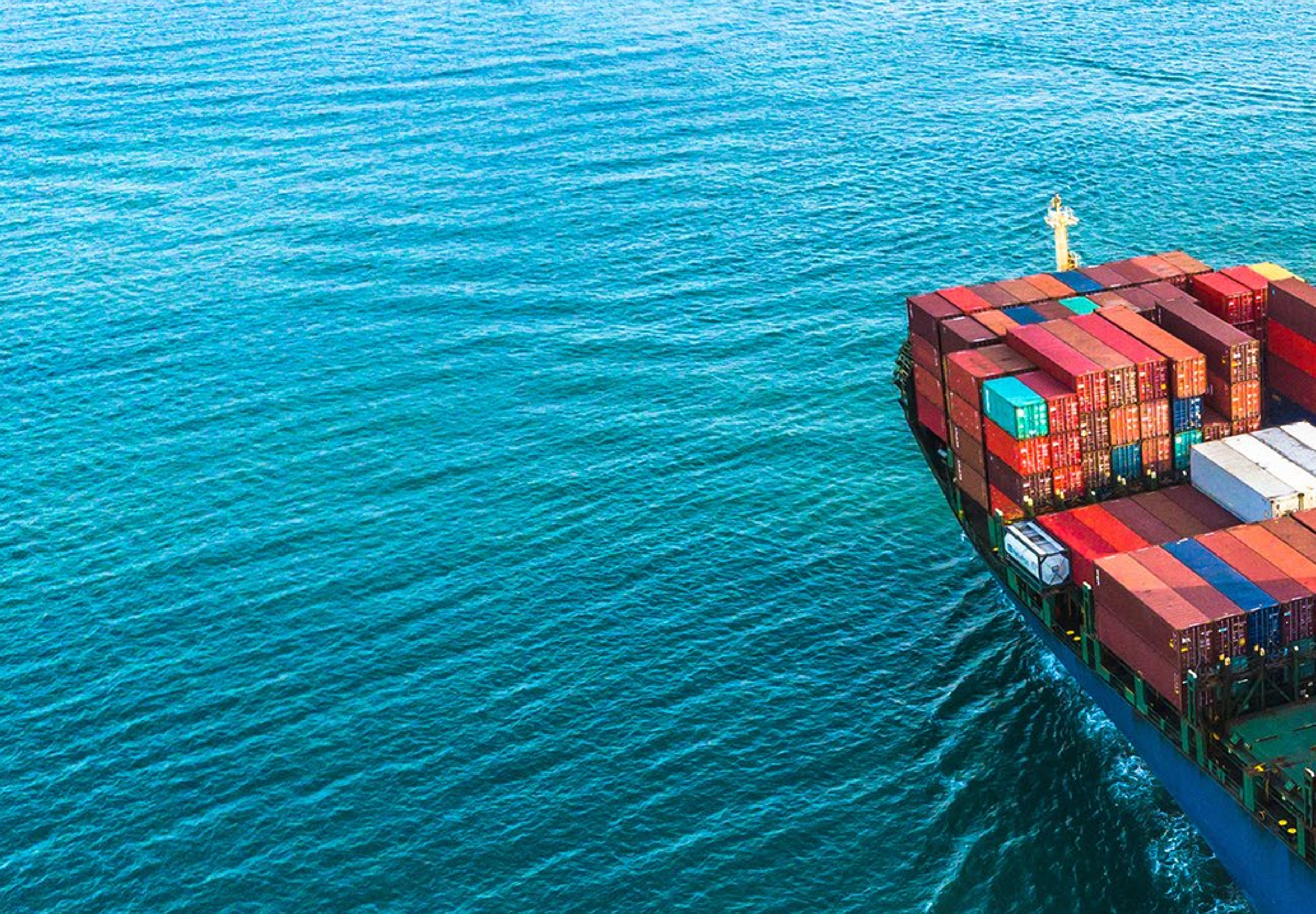
With on-demand access to intelligence, procurement teams can ask the right questions at the right time to ensure they effectively respond to risks.

Enable collaborative and well-defined remediation actions

After highlighting the right actions to take in response to an identified risk, you need to have a framework in place to ensure those actions happen.

By building an action planner, you can make actions and responses visible across your organization. This action planner should function as a single source of truth for all required and past remediation actions.

When everybody has a clear view of what they need to do and when, each person in your procurement team, and beyond, can start responding to risks quickly and consistently.



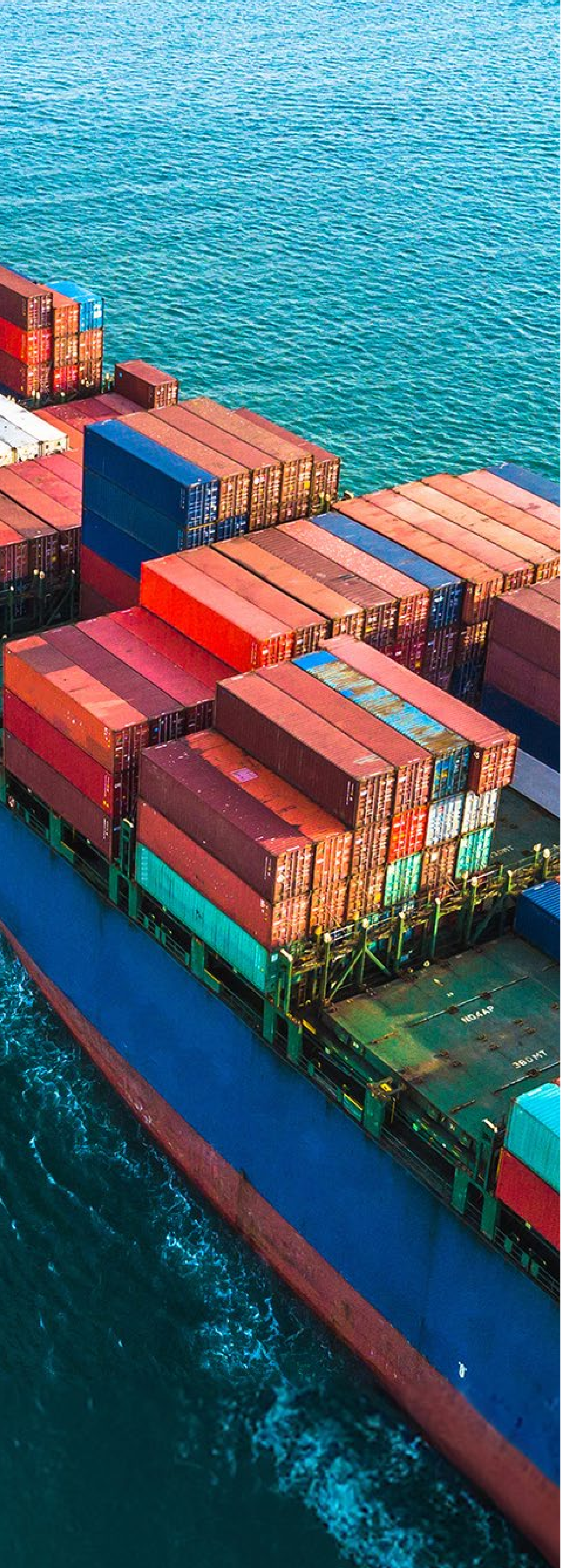
Section 4

How to make sure your risk program is effective

With the afore-mentioned pillars as your key framework for transforming supplier risk management, you're much more likely to build a strategic, consistent, and effective approach to managing risk.

But it's crucial to remember it's a journey. Implementing this framework won't happen overnight – it'll require well-thought-out changes at every step.

To help ensure you're always close to the framework and can develop an effective risk management program, we've captured some key things to keep in mind.



Develop an integrated intelligence and analytics ecosystem

You need an integrated view of relevant intelligence across systems to comprehensively cover risk from every angle.

This will involve creating a centralised location where data feeds from different vendors and internal teams can be exchanged, consolidated, and analysed. This will help you gain better visibility into supply and demand variables, supply chain dependencies, early-warning risk signals, and operational implications.

Focus on insights, not just data

It's important to distinguish between data and insights. Data is just the collection of information, whereas insights show the patterns in that information. It's insights that will help your team make more strategic, well-informed decisions in supplier risk management.

Generating these insights – and getting them to the right people at the right time – requires working with knowledge partners who can unlock more from your data and empower your teams to remediate risks.

Focus on collaboration with suppliers

Most companies have transactional relationships with their suppliers based on price, quality, and capacity. But increasingly, companies that collaborate with their suppliers more deeply are proven to have higher growth rates, lower operating costs, and greater profitability than their peers.

These collaborations might involve participation in new product development, performance and risk management, operations and capacity planning, or logistics and distribution planning. Ultimately, it's about building more open relationships that create benefits for both parties.

Make risk management transparent

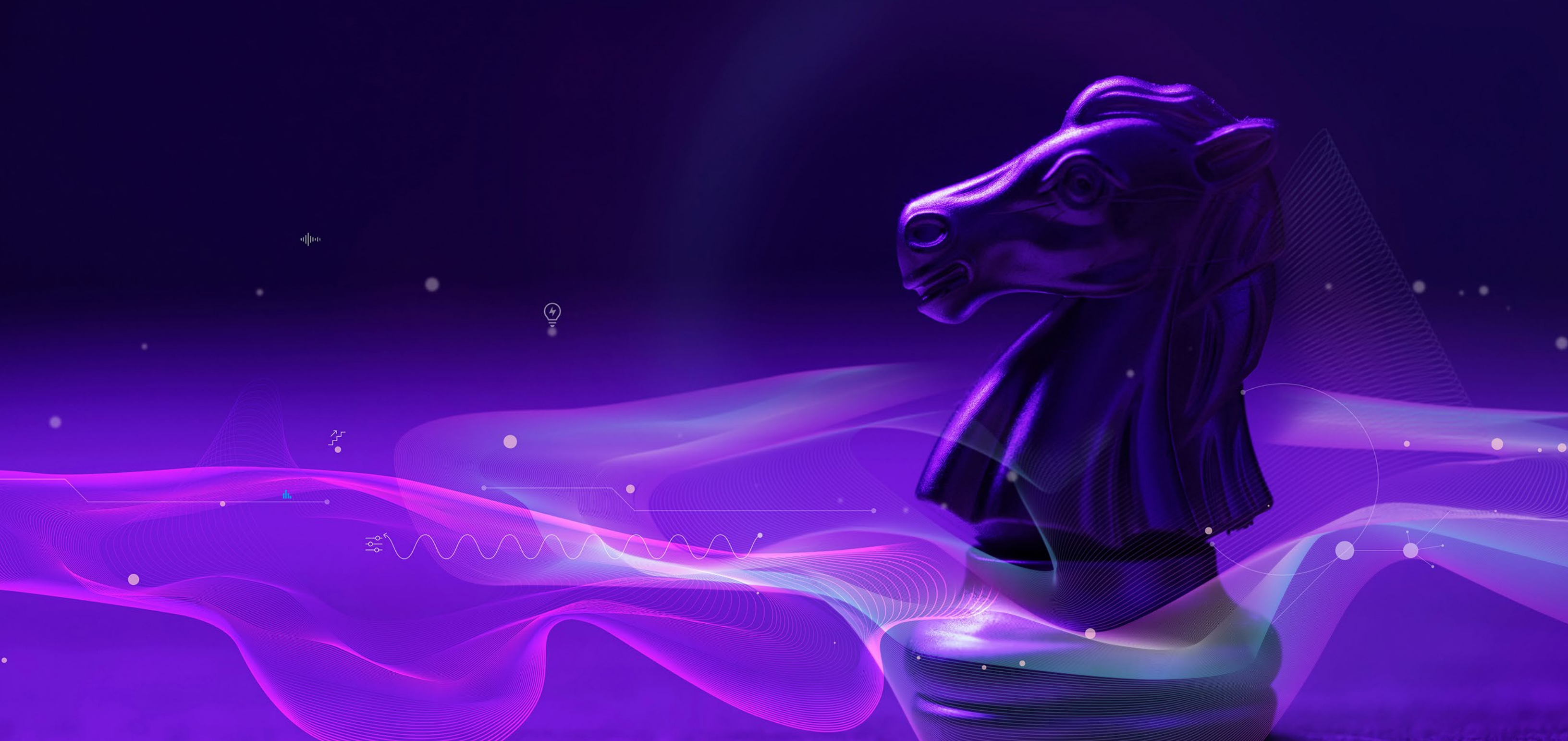
If you're serious about building supply resiliency, you'll need to rethink data access and confidentiality. Many companies treat almost all internal data as confidential without properly assessing the associated risks and benefits of disclosure.

Without sharing data with suppliers, collaboration will be limited, and supply chain visibility and analytics planning won't be as effective. Similarly, emissions reporting will be much less accurate. For example, scope two and three emissions – which cover indirect greenhouse gas emissions – account for more than 90% of all emissions in a company's supply chain. However, many of these won't be reported without regular inputs from upstream and downstream partners.

Build buffer stock and capacity to handle shocks

More than ever, you need to be prepared for frequent supply chain disruptions. That means creating stock and capacity buffers for critical materials to withstand supply shortages and demand surges.

Buffer stock will help you manage sudden shortages and price volatility, whether it's a trade route that's disrupted or a weather event causing limited production of a specific commodity. Meanwhile, buffer capacity can help you address demand surges, which could be caused by anything from new consumer trends to geopolitical events creating a sudden need for specific materials.



Section 5

The potential of generative AI to evolve supplier risk management

In addition to the core principles we've covered, today's supplier risk management functions have another tool they can use to stay aligned with the four key pillars: generative AI (GenAI).

Traditional, predictive AI has dozens of practical applications in supplier risk management already, from collating hundreds of data points to supporting continuous risk management across thousands of sources. But it's always had its limitations.

Traditional AI models require extensive training with huge volumes of data before they can be applied to specific risk management use cases.

They also rarely produce user-friendly outputs. While certain AI models can analyse and condense large volumes of information, their outputs are often in the form of raw data rather than actionable insights – not always useful for risk managers and rarely suitable for external sharing.

Now, GenAI models address these limitations and have the potential to transform supplier risk management.

Here's a closer look at what the technology is capable of and where it's going to make the biggest impact.

What's possible with GenAI

Unlike traditional AI models, there's much less training required for GenAI. Many GenAI models, including those publicly available such as ChatGPT, Gemini, and Claude, come pre-trained.

This means that, rather than having to train them from scratch, GenAI models can be fine-tuned to specific risk management tasks with relevant data such as supplier profiles, risk assessment reports, incident response reports, and internal communication records.

GenAI can also generate much more human-like responses making them significantly easier responses, for risk managers to consume and act from. This is particularly useful if you want to share a model's output with external parties, such as a supplier or client.

Similarly, GenAI can also receive natural language prompts, simplifying the query process and making it a much more accessible tool regardless of practitioners' technical capabilities.

Where GenAI can make a difference in supplier risk management

While many risk management functions haven't yet implemented GenAI into their everyday practices, there are some specific use cases where the technology can make a significant impact.

In the near future, we'll likely see risk managers adopting GenAI across the following areas:

Supplier validation and risk assessment

Initial supplier due diligence processes are currently very manual, but GenAI can automate first-level assessments for suppliers. Given the right criteria and classifications to meet, a GenAI model can compare supplier disclosures with defined rating criteria and public information to assess their validity and generate follow-on queries and risk ratings.

Continuous risk monitoring

Risk monitoring is already highly automated – human experts can't monitor ongoing risks at the scale AI can. However, GenAI has the potential to take this automation a step further. Using the right GenAI model, risk managers can automatically classify, rate, and develop incident reports on a daily - or even hourly - basis, giving them timely and contextual updates to respond to urgent supply chain threats.

Complex scenario analysis

Scenario analysis is a valuable way to predict and plan for different outcomes, but it's a lengthy process that often takes experts multiple days. GenAI can execute this process in a matter of minutes, giving almost immediate outcomes, and enabling risk managers to compare different scenarios on the fly.

Decision support

GenAI can be particularly useful as a co-pilot for procurement practitioners to help them make decisions throughout their daily workflows. For instance, pairing a junior procurement practitioner with GenAI, which can draw on extensive procurement knowledge and internal and external risk signals, will enable them to make more confident decisions much sooner in their career.

Task automation

Low-level task automation isn't new in supplier risk management, but currently, it still requires a human expert to execute the final actions. Intelligent GenAI models will be able to automate more of this process, such as searching for alternative suppliers and automating developing suitable contracts, leaving human practitioners to focus on more valuable negotiations.

Transform your risk management function today

When it's empowered with the right tools, intelligence, and capabilities, your supplier risk management function can be a true value center in your organization. It can help you navigate disruption with confidence and give you the insights you need to excel in the market.

And it's easier to start transforming the function than you might think. At WNS Procurement, our dedicated experts have extensive experience of helping risk management teams build the strategies and tool sets they need to create value in their organizations.

Our Supplier Risk Intelligence solution offers end-to-end monitoring and management, combining artificial and human intelligence to track supplier risks continuously and deliver actionable insights. With 74 metrics and over 100 checks covering financial, operational, sustainability, and performance factors, it provides comprehensive risk visibility for a thorough and robust assessment of supplier risks.

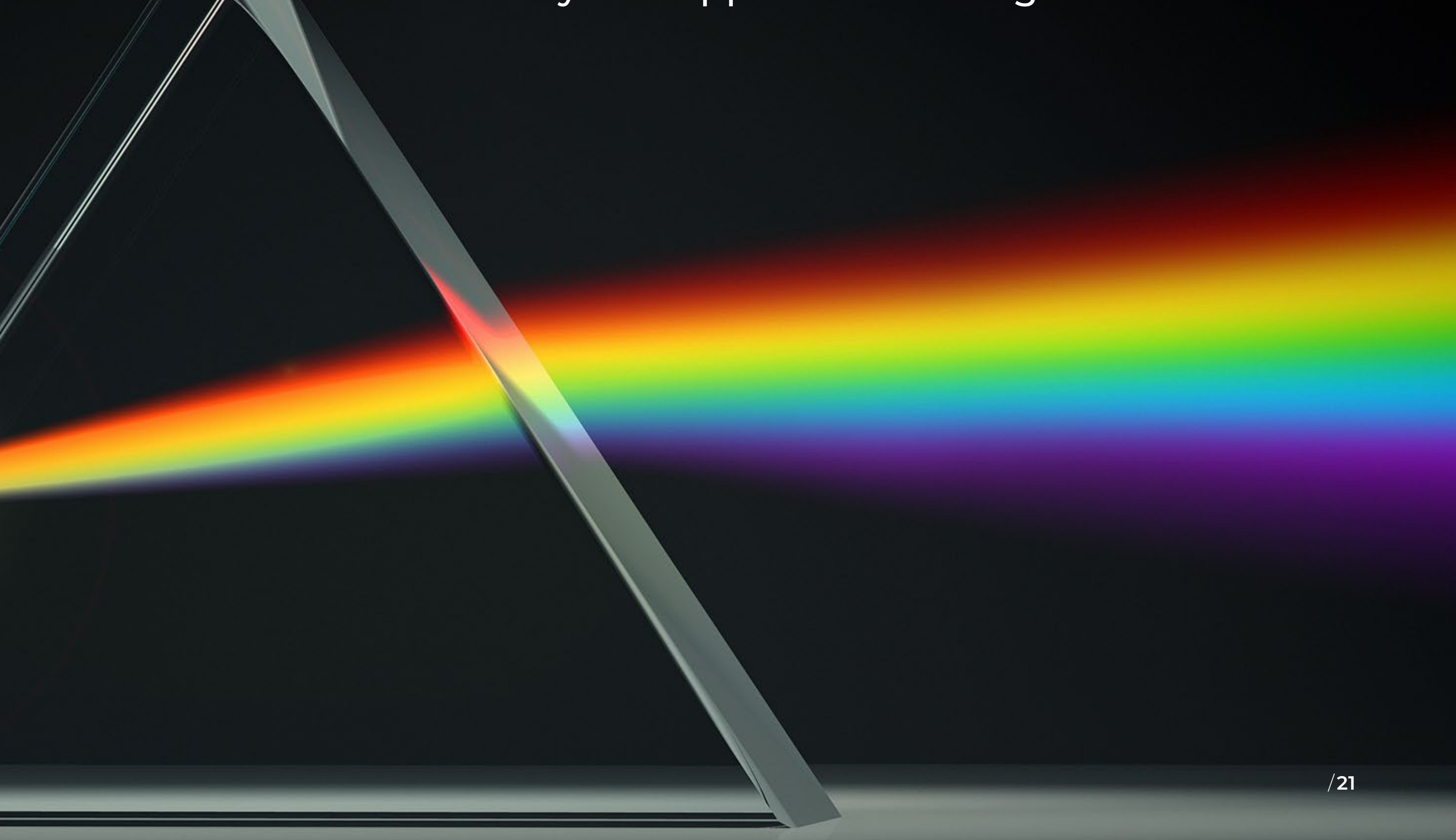
Powered by Smart Risk, our proprietary cloud-based platform, the solution enhances your supplier risk management by enabling your teams to quickly identify, understand, and address risks in your markets with precision and efficiency.

How well does your procurement team detect risks?

Take our 2024 Supplier Risk Management Test to find out how your organization compares to others when it comes to risk awareness and maturity

Get in touch

with us today to see how you can evolve your supplier risk management function



The world of

WNS PROCUREMENT

WNS Procurement is a market leader in procurement and supply chain advisory, managed services and digital transformation. It has the combined market differentiation of Denali, The Smart Cube and OptiBuy.

Procurement teams of the Global 2000 across industries partner with WNS Procurement to become the top value creator in their business by implementing transformational operating models that are category-driven, insights-led and digitally enabled.

We meet our clients where they are: assess, co-create and operate their end-to-end procurement ecosystem by implementing fully customized, next-generation operating models.

Our solutions are powered by Artificial Intelligence (AI) and Human Intelligence (HI) – combining expert resources with leading digital technologies to help Procurement drive greater stakeholder value.

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