SAI GLOBAL

ONE SIZE FITS NONE:
DEVELOPING MORE EFFECTIVE RISK MANAGEMENT STRATEGIES IN THE FOOD INDUSTRY

CONTRIBUTING AUTHORS:
PAUL OH, PRODUCT MANAGER, SAIGOL
KIMBERLY CAREY COFFIN, GLOBAL ACCOUNTS DIRECTOR

Disasters that wreak havoc on an organisation's reputation and bottom line often seem to strike out of the blue. But all too often, greater awareness of supply chain risks could have mitigated the scale of the problem, if not remove it all together. Here, we look at these risk blind spots and how to uncover and manage them before risks become reality.

The set of risks each industry and each business faces is unique. However, common to all businesses is the most menacing risk of all: the risk you can't see. A number of factors can give rise to risk blind spots, including attitudinal bias, lack of 'true' supply chain visibility, failure to unlock the power of data, lack of shared risk objectives, and a one-size-fits-all approach to the evaluation and measurement of supply risk.

In the food industry, these quietly simmering risks leave organisations particularly vulnerable. The expectation that what we put on our family's dinner plates is safe to eat, makes brand protection and product safety critical.

It's important for food businesses to ask these questions:

- *How do risk blind spots develop?*
- *How can we uncover the subtle signs pointing to these risks?*
- *What strategies can we put in place to manage these seemingly unforeseeable risks?*

'IT WON'T HAPPEN TO US': ATTITUDINAL BIAS

You're the owner of a large frozen-food company and you are put on alert after a competitor recalls one if its products due to cross-contamination in an ingredient you also use. You immediately check the supplier of the contaminated ingredient against your supplier list, and are relieved to find you don't use them. You make sure everyone knows they are not to engage that supplier in the future and you check your own supplier's certifications. "Crisis averted," you sigh.

But have you really done enough to prevent a disaster? Going through the motions and adhering to your risk management framework may not be enough to prevent a similar situation occurring within your organisation. Without investigating deeper in your supply chain, you can't know that your own product isn't – or won't be – affected. An issue with one supplier could hint at a growing problem with worldwide supply.

This failure to react in a thorough and proactive way is often due to a simple (and common) attitude: 'It won't happen to us.' Being aware of this bias, and how it may present, is the first step in overcoming this trap.

Unfounded optimism

Many businesses have an overly optimistic view of the safety of their own industry, region or business area. An SAI Global quantitative global survey of more than 2300 participants found that only 28.4% * of participants saw value in improving how supply chain risk is managed, while 63.4% felt that existing systems were adequate, and 16.3% felt their systems were more than adequate, to manage risks.

Given that most risk events are unpredicted, it's important to recognise that an innate sense of optimism may prevent organisations from embracing the things that help shine a light on risks: being proactive and continuous improvement.

A false sense of security

In the scenario above, the company hasn't experienced a previous incident and doesn't use the same supplier. By focusing on those potential risks which they consider less likely to affect them, risk managers may be left with a false sense of security. Unfortunately, globalisation and the complexity of food supply chains create new risks all the time, and an underlying risk may still be brewing.

The 'us and them' mentality

Looking at the frozen food company scenario again, imagine your company is based in Australia, while your competitor is in Europe. Australia's geographical isolation and high industry standards are associated with a perception that it is a safe supply source, with good-quality products and a low likelihood of international crossover. It's therefore tempting to put events arising overseas into the 'international problems' basket, without evaluating global supply sources and the level of local relevant risk.

The same risk arises when you consider your industry as inherently safer than others, or your suppliers as more reliable, for whatever reason. It's important to take a step back and try to look at your situation as holistically and objectively as possible.

COMPLEX SUPPLY CHAIN RISK: DIGGING DEEPER

The growing depth and complexity of supply chains in the food industry is a major source of potential risk blind spots. There are many contributing factors:

- Globalisation and an increasingly interconnected global market
- Scarcity of in-demand ingredients
- New microbiological threats
- Malicious activity and fraud
- Geopolitical events
- Changes in consumer demand

It's no surprise that the root cause of product recalls often trace back deep into the supply chain. In 2016, a customer in the US alerted Grain Craft to the presence of peanut residue in a cookie baked with its flour. Testing confirmed the residue was present in the wheat flour supplied by one of Grain Craft's flour mills.

It was eventually discovered that the contamination didn't occur at the mill, but was a result of agricultural cross-contact with wheat grown in a peanut-producing region.

The first step in unravelling supply chain risk is to understand your supply source thoroughly. You can't just assess the amalgamator or direct supplier, you need to trace back to the original source. Although contracting amalgamators and resellers adds another layer of risk to the supply chain, bear in mind that while direct sourcing allows a level of oversight, the rigor of onboarding can be inadvertently influenced by how risk is perceived. If, for example, you took on a new supplier of single-origin coffee with direct links to the grower, believing that this supplier is inherently 'safer' than an amalgamator may lead you to take a less rigorous approach to onboarding. In doing so, you may fail to take into consideration farming practices in the supplier region, or changing environmental issues that could influence the quality of the product.

You also need to examine each element of the supply chain on its own merits, and avoid a one-size-fits-all approach. Consider the frozen berry scandal in Australia, where 31 cases of hepatitis A were linked to frozen berries imported from China. The company had sourced berries from multiple countries. A deeper understanding of farming practices – and how they differ between countries – may have ensured a different risk assessment and framework for different source countries.

Another part of the puzzle is deciding where to dig deeper into the supply chain. Business realities mean resources aren't always there to pursue every lead. It's hard to know where to draw a line, but technological advancements and big data are starting to assist.

*Supply chain risk study, SAI Global, 2015.

DATA ANALYTICS: STAYING AHEAD OF RISK

As objective as we'd like to think we are, bias and supply chain complexities mean our pre-existing risk framework can blind us to potential risks. Data, on the other hand, can drive insights that illuminate those risks. Numbers provide no room for challenge – allowing us to hone in on subtle changes in metrics that can highlight a need for further investigation of an issue. Numbers can also help focus energy in the right areas, and get the best results with existing resources.

However, management reporting still tends to rely on lag indicators which provide only a historical view, looking at whether similar risk events have occurred in the past, and the extent of their business impact. While these indicators can help paint possible scenarios, experience tells us that yesterday's patterns are not necessarily going to appear again in the same identifiable sequence.

Another key area of blind spots is the way people set out their supply chain metrics. Organisations tend to focus on demand forecasting and delivery, neglecting supplier quality in favour of ensuring supply continuity. You need to proactively audit data to get to know the suppliers you're working with, and set up a broad-reaching set of metrics around supplier quality and supply source.

In the Australian frozen berry example, changes in data could have sparked an investigation before the crisis – which affected not only the company's reputation, but the perception of imported food generally – unfolded. The supply model could have taken into consideration that suppliers were amalgamating berries from different sources and different risk factors were involved in relation to berries coming out of China, Canada and Chile. As such, varied risk profiles would have led to control metrics aligned with source risk.

SHARED RISK OBJECTIVES

Blind-spot hotbeds are not just buried in distant parts of the supply chain in far-off lands. Some risks are emerging right under your nose. Internally, silos and a weak overall risk culture can allow risks to grow unchecked.

Breaking down silos

In the food industry, there's often a disconnect between the people who procure materials and those in the organisation who are defined as responsible for product compliance and risk. Also, different parts of an organisation will naturally have different priorities, and therefore a different approach to risk. While procurement managers focus on basic measurements of supplier efficiency and cost, technical teams live and breathe integrity and brand reputation.

It must also be recognised that the challenge with big data is contextualising for the organisation's operating environment. So IT, which doesn't traditionally play a big part in risk management, may be sidelined despite the importance of technology in quantifying risk critical to supply and supplier management.

This lack of shared risk ownership leads to a disconnect in how areas perceive the risk framework. It can lead to conflict, with speed, efficiency and price winning out and no new procedures being put in place to manage the increased risk.

To break down these silos, organisations should encourage:

- KPIs that reflect the importance of teamwork and collaboration
- Organisation-wide activities and conversations about risk
- Tools and processes that increase project visibility across departments

CONCLUSION

With flexible and intelligent risk management, rather than a one-size-fits-all approach, organisations can gain the insight needed to discover so-called 'risk blind spots' and prevent expensive recalls and even greater costs to brand reputation. This approach has the added benefit of ensuring your resources are focused in the right way, towards the right risks.

Key takeaways:

- *Be honest about the risks facing your business*
- *Turn your focus inward, and make sure your internal culture is informed, consistent and pro-active about risk*
- *Be vigilant about changes and events in industry, regulation, geopolitics and the environment that could affect you or your suppliers*
- *Prevent complacency by undertaking consistent audits*
- *Use data to systematically analyse risk and inform your risk strategies*